

CITY OF LAKE FOREST CALIFORNIA



Comprehensive Annual Financial Report

Year Ended June 30, 2014

CITY OF LAKE FOREST, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
FISCAL YEAR ENDED JUNE 30, 2014

Prepared by:

Finance Department

Keith D. Neves
Director of Finance/City Treasurer

CITY OF LAKE FOREST

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Mayor
Scott Voigts

Mayor Pro Tem
Andrew Hamilton

Council Members
Dr. Jim Gardner
Adam Nick
Dwight Robinson

December 22, 2014

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Lake Forest:

City Manager
Robert C. Dunek

The Comprehensive Annual Financial Report of the City of Lake Forest, for the fiscal year ended June 30, 2014, is submitted herewith; this report was prepared by the auditors and the Finance Department.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, the management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally-accepted accounting principals ("GAAP"). Because the cost of internal controls should not outweigh the benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by White Nelson Diehl Evans LLP., a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ending June 30, 2014, are free of material misstatement. The independent audit involved examining, on a test basis: evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and, evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified ("clean") opinion that the City's financial statements for the fiscal year ended June 30, 2014, were fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

As a recipient of Federal, State, and County financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluations by management. Under Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, which was revised June 24, 1997, the City did not meet the criteria for periodic evaluation and, therefore, was not required to have a single audit performed for fiscal year ended June 30, 2014.



GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the Independent Auditors Report.

Profile of the Government

The City of Lake Forest ("City"), incorporated on December 20, 1991, is located in southern Orange County, California, in the area commonly referred to as the Saddleback Valley. It currently occupies 16.6 square miles and serves a population of 79,139 (Department of Finance, January 2014). It is the County's 31st city and the 2nd largest city within the Saddleback Valley. The City is empowered by state statute to extend its corporate limits by annexation, which it has done twice in the City's history.

The City has operated under the council-manager form of government since 1991. Policy making and legislative authority are vested in a City Council consisting of the mayor and four other council members. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City Council is elected on a non-partisan basis. Council members serve four-year staggered terms. The mayor serves a one-year term and is selected for the position annually by the City Council as a whole. All members of the Council are elected at large, not by district.

Lake Forest is a "contract city," primarily utilizing agreements with other governmental entities and private firms to provide traditional municipal services to the community. Through this process, the City provides a full range of services, including: police protection; the construction and maintenance of highways, streets, and other infrastructure; recreational and cultural activities; and, building and safety, land use planning, and zoning control services. The City is financially accountable for the Lake Forest Housing Authority, which is reported separately within the City's financial statements. The County continues to provide library services, independent of the City. Fire services are provided by a joint powers authority of which the City is a member. Additional information regarding all of these legally separate entities can be found in the notes to the basic financial statements.

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriation to the City Manager in January of each year. The City Manager uses these request as the starting point for developing a proposed budget. After a series of study sessions with Department Directors, the City Manager formally presents this proposed budget to the City Council for review in May at a Budget Workshop. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget on or around June 30, the close of the fiscal year. The adopted budget is prepared by fund, function, and department. The City Manager may transfer resources within and between departments and/or capital projects as long as overall appropriations are not increased; and, Council notification is required. All other changes to the budget require special approval from the Council.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy

The health of the general economy of the area has improved over the last couple years, and the City's overall revenues have either grown or remained stable over this period. Revenue increases are anticipated to continue in the current fiscal year. Major industries located in the City include internationally known brand manufacturers of scientific and medical instruments, sunglasses and sports-related goggles, in-flight entertainment and communication systems, hand and power tools, as well as financial institutions, real estate, and insurance companies. Included in a broad retail base are major national chain restaurants, general merchandise, home improvement and specialty stores, situated within various separate shopping centers.

Major sources of employment from industries and companies located within the City's boundaries include: sales, office, and administrative support (28%); management, business, and financial operations (22%); professional-related occupations (24%); and service (12%). In addition, companies contributing to the City's tax base are well diversified among general consumer goods, business and industry, restaurants, hotels, and autos/transportation. (Other categories include: construction, extraction, maintenance: 7.3%, farm, fishing, forestry: 0.5% and production, transportation, material moving: 6.2%)

Because of its location in a region with a varied economic base, unemployment has been relatively stable. During the last ten years, the unemployment rate rose from an initial low of 2.3% in 2006 to a high of 6.6% in 2010 due to the ongoing effects of the recession. Unemployment has been steadily decreasing during the last two years as the economy recovers. The current unemployment rate is 3.1% (Employment Development Department, September 2014)

As a result of revitalization efforts, the City's central location, and diversity of businesses, occupancy rates on commercial properties are currently positive when considering the economic climate. Occupancy rates range from 83% for office space to 96% for industrial properties.

During the past ten years, the City's operating expenditure increases in the General Fund were primarily due to park additions, expansion of services, and street maintenance requirements as the City has matured. In the City's major cost centers, expenditures related to police services and public works account for the largest percentage of those increases. The City has contracted police protection services with the County of Orange since incorporation, and the contract represents approximately 37% of the General Fund operating budget. Public works cost increases have also been attributed to the Council's dedication to infrastructure and landscape maintenance and an increase from 19 to 27 public parks during the past ten years. In addition, State requirements in regard to water quality have contributed to increased costs. Other functions in the City have increased in scope and budget on a lesser scale.

During the same ten-year period, the City's General Fund operating revenues have grown, with the largest components being sales tax, property taxes, transient occupancy

taxes, franchise fees, and motor vehicle in lieu fees (a majority of which is now backfilled from the State).

Long-term financial planning

Unreserved fund balance in the General Fund (105% of total General Fund revenues) falls well above the reserve policy set by the Council for planning and budgetary purposes (i.e. 40% of General Fund revenues and a \$3 million reserve for disasters).

Every two years, the City's Five-Year Strategic Business Plan ("Plan") is updated and approved by the Council. In the current Plan, the Council envisions completing a sports park and recreation center, developing City Hall, synchronization of traffic signals, streetscape improvements, and several park renovation projects. Much of the funding for projects will be reimbursed upon new development in future years.

Relevant financial policies

The City has a variety of important financial policies to assist in making sound decisions. These policies are shown below:

1. Investment Policy which is more restrictive than State law
2. Long-Term Financing Policy
3. Purchasing and Contract Guidelines
4. Reserve Policy
5. Carryover Appropriation and Revenue Policy

Major initiatives

The City is currently putting forth efforts on a variety of projects as are shown below:

1. Continue Phase V of the Opportunities Study, focusing on construction of a major sports park and recreation center, and finalizing plans and environmental permitting for a civic center including a meeting facility, senior center, community policing center, and Council Chamber/performance venue.
2. Continue supporting development of new master planned communities.
3. Synchronize traffic signals and improve street intersections throughout the City.
4. Continue the City's priority on growing and enhancing the City's Business Development and Attraction Program to attract new businesses and high quality jobs to the City.
5. Complete park improvements based on the Five-Year Parks and Recreation Master Plan, and initiate improvements to other recreation facilities and unimproved park sites.
6. Continue to utilize upgraded permitting system to facilitate additional online services and internal efficiencies.
7. Develop and initiate a work program for a comprehensive update to the City's General Plan.
8. Expand the Neighborhood Watch and Business Watch programs.
9. Promote City's online presence with new, upgraded City websites and social media.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City

for its comprehensive annual financial report for the Fiscal Year ended June 30, 2013. This was the twentieth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the City's entire management team and staff of the Finance Department. Special thanks are due to Kevin Shirah, Accounting Manager, and Lee Jueen Siow, Senior Accountant. Their dedicated efforts in the preparation of the final financial documents are reflected in the quality of this report. Credit also must be given to the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read "Dunek", with a long horizontal flourish extending to the right.

Robert C. Dunek
City Manager

A handwritten signature in blue ink, appearing to read "Keith D. Neves", with a stylized, cursive script.

Keith D. Neves
Director of Finance/City Treasurer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

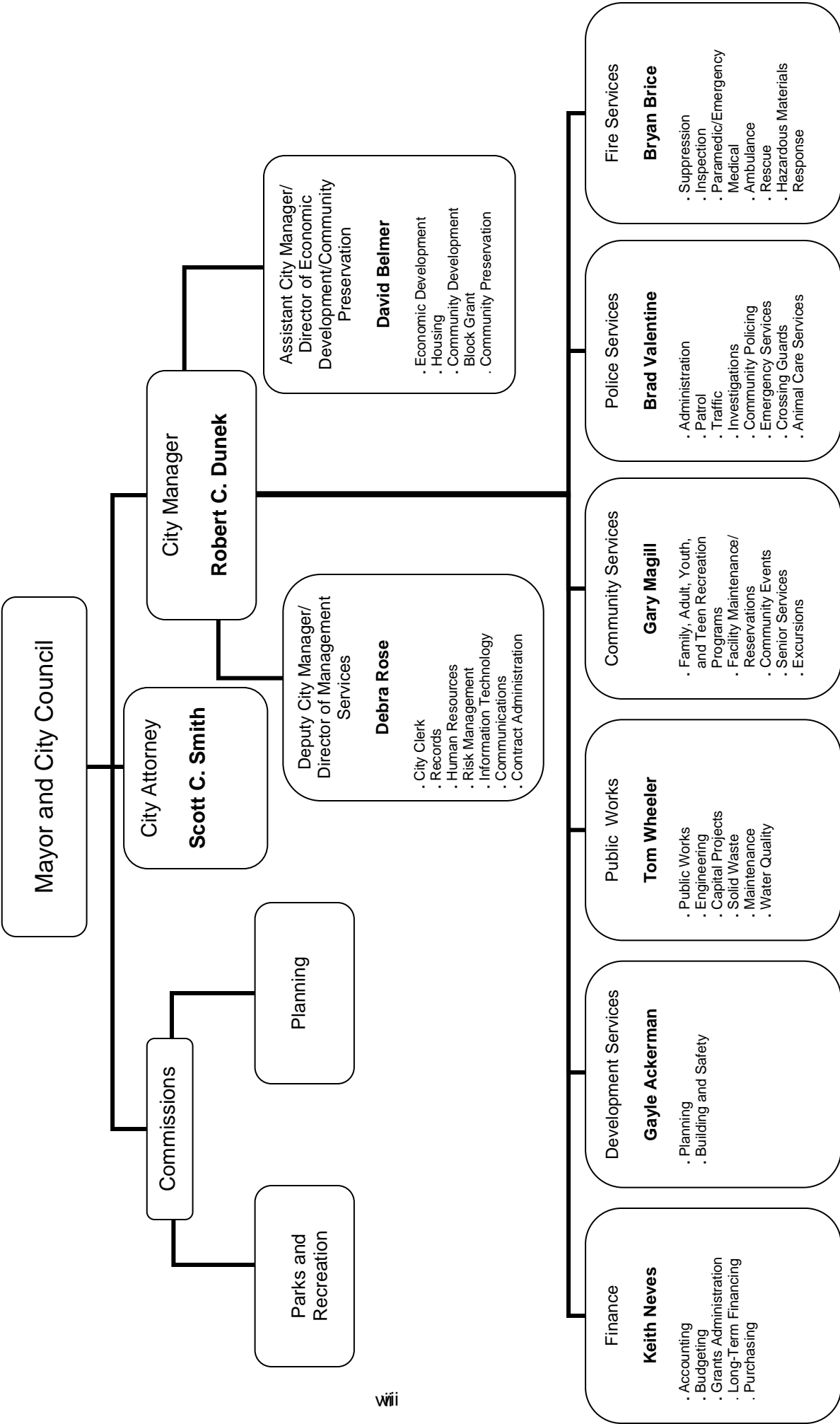
**City of Lake Forest
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

A handwritten signature in black ink, reading "Jeffrey R. Enos". The signature is written in a cursive, flowing style.

Executive Director/CEO



City of Lake Forest

City Officials

City Council

Dwight Robinson, Mayor
Adam Nick, Mayor Pro Tem
David A. Bass, Council Member
Kathryn McCullough, Council Member
Scott Voigts, Council Member

City Manager

Robert C. Dunek

Gayle Ackerman, Director of Development Services
David Belmer, Assistant City Manager/
Director of Economic Development – Community Preservation
Lieutenant Brad Valentine, Chief of Police Services
Bryan Brice, Division Chief - Fire Services
Gary Magill, Director of Community Services
Keith D. Neves, Director of Finance/City Treasurer
Debra Rose, Deputy City Manager/
Director of Management Services
Scott C. Smith, City Attorney
Tom Wheeler, Director of Public Works/City Engineer

Prepared by the Finance Department

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Lake Forest
Lake Forest, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Lake Forest (the City) as of and for the year ended June 30, 2014, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lake Forest, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1d to the basic financial statements, the City has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2013-2014 due to the adoption of Governmental Accounting Standards Board's Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*. The adoption of this standard required retrospective application resulting in \$65,673 of reductions in previously reported net position of the governmental activities and \$1,631,358 increase in previously reported fund balances of the governmental funds. Our opinion is not modified with respect to this matter.

As discussed in Note 16 to the financial statements, an error resulting in understating amounts previously reported for revenue, fund balance, and net position as of July 1, 2013 was discovered by management of the City during the current year. Accordingly, amounts reported for the beginning fund balance and net position have been restated in the fiscal year 2013-2014 financial statements to correct the error. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress, the schedule of employer contributions, and budgetary comparison schedule, listed in the table of contents as required supplementary information, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary information, as listed in the table of contents, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

White Nelson Nick Evans LLP

Irvine, California
December 22, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lake Forest ("City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. It is encouraged that the readers consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal and the accompanying basic financial statements.

Financial Highlights

Government-Wide

- Assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$347.3 million (net position). Of this amount, \$47.1 million (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$34.4 million. This increase is attributable to revenues being in excess of expenses.
- Total revenues from all sources were \$79.5 million as compared to the cost for all City programs of \$45.1 million.

Further discussion of changes in net position, revenues, and expenses is included in the Government-wide Financial Analysis section.

Fund Based

- Total governmental fund balances were \$67.7 million. Nonspendable were \$0.2 million, restricted were \$21.1 million, assigned were \$12.0 million, and unassigned were \$34.4 million.
- Total governmental fund balances increased by \$6.3 million. This increase is attributable to an excess of revenues as compared to expenditures.
- Total governmental revenues from all sources were \$79.5 million as compared to expenditures of \$73.2 million.

Further discussion of revenues and expenditures is included in the Financial Analysis of the Government's Funds section.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. In time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

See independent auditors' report.

**CITY OF LAKE FOREST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The *statement of activities* presents information on how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods; (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements include not only the City itself (known as the primary government), but also the legally-separate Lake Forest Housing Authority (Housing Authority) and the Rancho Cañada Financing Authority (Financing Authority) for which the City is financially accountable. Financial information for the Housing Authority (a component unit) is reported separately from the financial information presented for the primary government itself. The Housing and Financing Authorities are presented as other governmental funds. The Housing and Financing Authorities function for all practical purposes as departments of the City, and therefore, have been included as an integral part of the primary government. The City does not account for any of its services on a business-type activity basis.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and government-wide activities.

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Opportunities Study Area Capital Projects Funds, which are all considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for all governmental funds. A budgetary comparison statement has been provided for each of the funds with appropriated budgets to demonstrate compliance with these budgets.

See independent auditors' report.

**CITY OF LAKE FOREST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Proprietary funds. The City of Lake Forest maintains one type of proprietary fund – an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains one internal service fund to account for the replacement of its fleet of vehicles. Because these services predominantly benefit the governmental function, they have been included within governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The combining statements referred to earlier in connection with other governmental funds are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$347.3 million at the close of the most recent fiscal year. By far, the largest portion of the City's net position (80%) reflects its net investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment).

Table 1
Net Position
(in millions)

	Governmental Activities	
	2014	2013
Current and other assets	\$ 76.8	\$ 73.2
Capital assets	289.1	261.7
Total assets	<u>\$ 365.9</u>	<u>\$ 334.9</u>
Current and other liabilities	\$ 7.9	\$ 11.7
Long-term debt liabilities	10.7	10.3
Total liabilities	<u>\$ 18.6</u>	<u>\$ 22.0</u>
Net position:		
Net investment in capital assets	\$ 279.1	\$ 261.7
Restricted	21.1	9.9
Unrestricted	47.1	41.3
Total net position	<u>\$ 347.3</u>	<u>\$ 312.9</u>

An additional portion of the City's net position (6%) represents resources that are subject to external restrictions in how they may be used. The remaining balance of \$47.1 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

See independent auditors' report.

**CITY OF LAKE FOREST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The City's net position increased by \$34.4 million during the current fiscal year. Key elements of the increase are as follows:

Total revenues were \$79.5 million as compared to prior year revenues of \$45.5 million and major contributing revenue variations from the prior year are described below.

- Capital grants and contributions increased by \$32.6 million due to development activities for the Opportunity Study Area.

Total costs for all City programs were \$45.1 million as compared to prior year costs of \$42.6 million and material variances from the prior year are described below.

- Development services costs increased by \$1.1 million due to increase development activities for Opportunity Study Area.

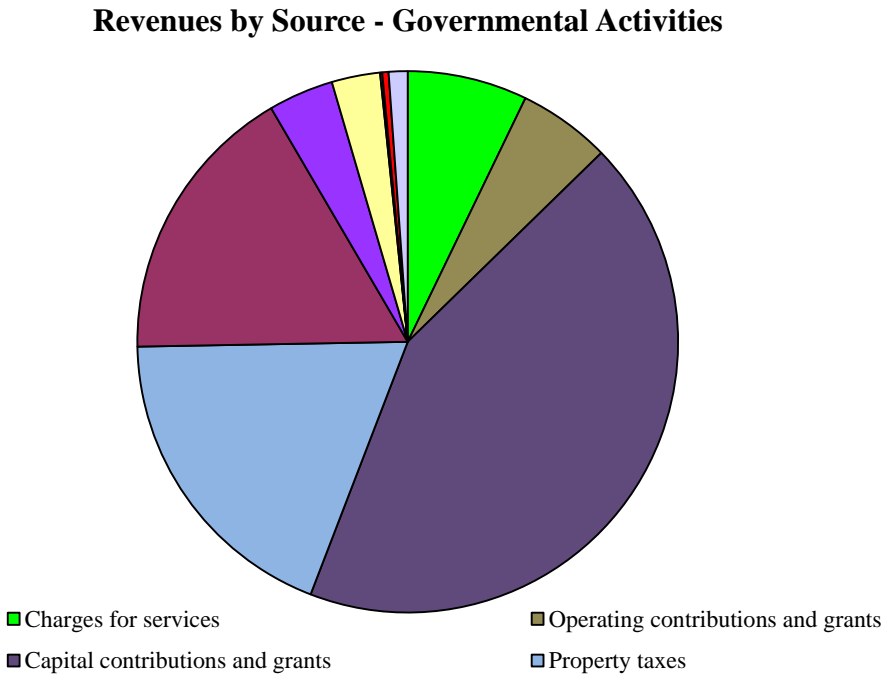
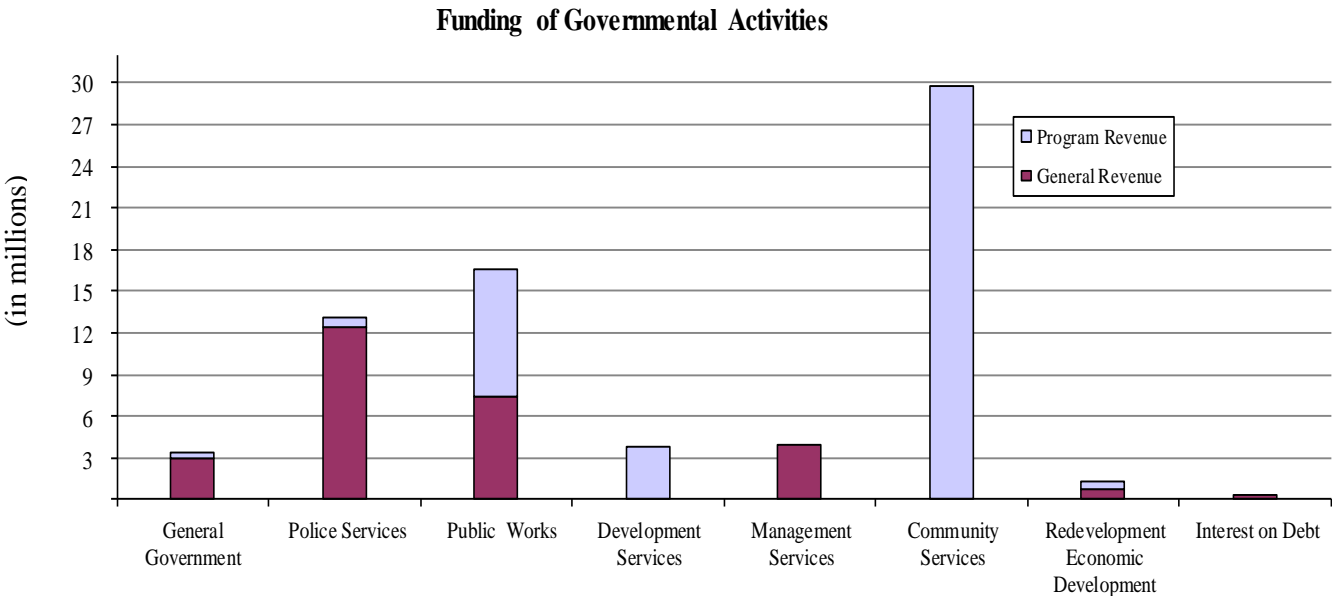
**CITY OF LAKE FOREST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Table 2
Changes in Net Position
(in millions)

	Governmental Activities	
	2014	2013
Revenues:		
Program Revenues:		
Charges for services	\$ 5.7	\$ 5.7
Operating Grants and Contributions	4.4	4.0
Capital Grants and Contributions	34.3	1.7
General Revenues:		
Taxes:		
Property taxes	15.0	14.4
Sales taxes	13.4	13.1
Transient occupancy taxes	3.1	2.8
Franchise taxes	2.3	2.2
Motor vehicle license in-lieu taxes	-	0.1
Other taxes	0.1	-
Investment income	0.3	0.2
Other	0.9	1.3
Total revenues	<u>\$ 79.5</u>	<u>\$ 45.5</u>
Expenses:		
General government	\$ 3.4	\$ 3.6
Public safety	13.1	13.0
Public works	16.6	15.7
Development services	3.4	2.3
Management services	3.9	3.6
Community services	3.0	2.9
Redevelopment / economic development	1.3	1.1
Interest on long-term liabilities	0.4	0.4
Total expenses:	<u>\$ 45.1</u>	<u>\$ 42.6</u>
Change in net position	<u>\$ 34.4</u>	<u>\$ 2.9</u>
Net position at beginning of year, as restated	<u>\$ 312.9</u>	<u>\$ 310.0</u>
Net position at end of year	<u><u>\$ 347.3</u></u>	<u><u>\$ 312.9</u></u>

See independent auditors' report.

**CITY OF LAKE FOREST
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2014**



**CITY OF LAKE FOREST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$67.7 million, an increase of \$6.3 million in comparison with the prior year. Of this amount, \$0.2 million is nonspendable prepaid items that are reserved to indicate that it is not available for new spending because it offsets noncurrent financial resources that are not expected to be liquidated in the near term, \$21.1 million is for a variety of restricted purposes, \$12.0 million is assigned to be used for specific purposes through the City Council budgetary actions, and \$34.4 million is unassigned which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$34.5 million, while total fund balance reached \$42.8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund operating expenditures. Unassigned fund balance represents 99% of total General Fund expenditures, while total fund balance represents 123% of that same amount.

Fund balance in the City's General Fund increased \$5.4 million during the current fiscal year. Key factors in this increase are as follows:

- Revenues increased by \$1.7 million. Taxes increased by \$1.3 million, primarily attributable to the economy starting to bounce back after the ongoing effect of the recession. Licenses and permits revenues increased by \$1.9 million due to increase building permit issuance in Opportunity Study Area. Intergovernmental revenues decreased by \$2.4 million mostly due to more grant opportunities for capital improvement projects in prior year. Charges for services revenues increased by \$0.8 million due to increase developer plan checks and engineering fees related to development of Opportunity Study Area. The remaining portion is related to smaller fluctuations in other revenue accounts.
- Expenditures decreased by \$2.2 million. Development services costs increased by \$1.1 million due to increase development activities for Opportunity Study Area. Capital outlay costs decreased by \$3.8 million due to reclassification of Other Governmental Fund – Capital Improvement Projects Capital Project Fund. The remaining portion is related to smaller variances in various expenditure accounts in other departments.

The City has one other major fund, the Opportunities Study Area Capital Projects Funds.

The Opportunities Study Area Capital Projects Fund is primarily composed of funds transferred in from the General Fund to incur costs for public facilities related to future development. The major projects being funded at this time are Sports Park and Recreation Center. This fund ended the year with an increase in fund balance of \$9.1 million. Expenditures increased by \$7.9 million, mostly attributable to construction costs of the above noted capital projects.

See independent auditors' report.

**CITY OF LAKE FOREST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Proprietary fund. The internal service vehicle replacement fund net position amounted to \$0.5 million at June 30, 2014. Of this amount, \$0.4 million is reported as unrestricted and \$0.1 million is reported as net investment in capital assets.

General Fund Budgetary Highlights

Revenues

The difference between original and final amended budgeted revenues was an increase of \$4.1 million. The most notable mid-year revenue adjustments were made to Taxes (\$1.8 million) and Licenses and Permits (\$1.8 million).

Actual revenues were higher than budgeted amounts by \$0.6 million. Charges for services revenues were more than the budget by \$0.8 million primarily due to increase developer plan checks and engineering fees related to development of Opportunity Study Area.

Expenditures

The difference between original and final amended budgeted expenditures was \$3.0 million. The difference was mostly due to \$1.4 million adjustments made to development services and \$0.6 million adjustments made to Public Works for the increase developer and engineering plan checks related to the development of Opportunity Study Area.

Total expenditures were under budgeted amounts by \$3.3 million primarily attributable to savings across several departments during the year.

**CITY OF LAKE FOREST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2014, amounts to \$289.1 million net of accumulated depreciation.

Major capital asset events during the current fiscal year included the following:

- Costs in the construction in progress category increased \$29.9 million primarily due to the construction of the Sports Park and Recreation Center.
- Infrastructure in the park improvements category increased by \$2.2 million primarily related to completion of Rimgate Park renovation, Tamarisk Park renovation, play equipment replacement and shade structure program.

City of Lake Forest - Capital Assets
(net of depreciation)
(in millions)

	Governmental Activities	
	2014	2013
Land	\$ 110.1	\$ 110.1
Machinery and equipment	0.3	0.2
Buildings and improvements	1.3	1.3
Construction in progress	45.7	15.8
Infrastructure:		
Streets	68.8	71.9
Curbs, gutters and sidewalks	25.7	26.4
Storm drain system	9.6	9.9
Traffic signal system	3.8	4.0
Medians	10.3	10.8
Park improvements	13.5	11.3
TOTAL	<u>\$ 289.1</u>	<u>\$ 261.7</u>

Additional information on the City's capital assets can be found in Note 3 in the Financial Section of this report.

See independent auditors' report.

**CITY OF LAKE FOREST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Long-Term Liabilities

At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$10.7 million, a decrease of \$1 million from the prior fiscal year. Total long-term debt outstanding represents the issuance of the 2011 Lease Financing Certificates of Participation ("Certificates") for the City's share of the Alton Parkway Improvement Project and compensated absences. Principal and interest on the Certificates are due in bi-annual payments. Debt service began in December 2011 and the Certificates mature in 2026.

City of Lake Forest - Long-Term Liabilities
(in millions)

	2014	2013
2011 Certificates of Participation	\$ 10.0	\$ 11.0
Compensated absences	0.7	0.7
Total	<u>\$ 10.7</u>	<u>\$ 11.7</u>

Additional information on the City's long-term liabilities can be found in Note 5 in the Financial Section of this report.

Economic Factors and Next Year's Budgets and Rates

The June 30, 2014, unemployment rate for the City was 3.1% as compared to the rate of 3.7% one year ago. The City's rate compares favorably to the State's unemployment rate of 7.0% and the national average rate of 5.8%.

The City's Fiscal Year 2014-15 Operating Budget takes into account the historical trends of property, hotel, and sales taxes. Additionally, the health of the general economy was factored into the projections. The Operating Budget will be fully reviewed at mid-year to assess any changes to revenue as the local economy has improved over the last couple years.

General Fund operating expenditures have been projected to remain relatively stable for the next five years due to revenue declines experienced from the recession. The City's General Fund is balanced in the Operating Budget for Fiscal Year 2014-15 and all reserves are fully funded.

All of these factors were considered in preparing the City's Budget for Fiscal Year 2014-15.

Requests for Information

This financial report is designed to provide a general overview of the City of Lake Forest's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Lake Forest, 25550 Commercentre Drive, Suite 100, Lake Forest, California 92630.

See independent auditors' report.

CITY OF LAKE FOREST
STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities
ASSETS:	
Cash and investments	\$ 70,482,943
Receivables:	
Taxes	2,157,380
Accounts	501,019
Interest	30,446
Grants	146,954
Loans	1,699,351
Due from other governments	497,228
Prepaid items	163,350
Pension asset	600,430
Land held for resale	326,000
Other post-employment benefit (OPEB) asset	217,140
Capital assets:	
Not being depreciated	155,827,485
Being depreciated, net	133,268,927
TOTAL ASSETS	<u>365,918,653</u>
LIABILITIES:	
Accounts payable	5,015,100
Accrued salaries and benefits	137,111
Interest payable	32,735
Retentions payable	1,540,139
Unearned revenue	752,887
Deposits payable	427,836
Noncurrent liabilities:	
Due within one year	1,162,400
Due in more than one year	9,513,699
TOTAL LIABILITIES	<u>18,581,907</u>
NET POSITION:	
Net investment in capital assets	279,126,412
Restricted for:	
Low and moderate income housing	2,203,752
Redevelopment/economic development	1,338,879
Public safety	106,479
Public works	8,305,933
Community services	9,118,505
Unrestricted	47,136,786
TOTAL NET POSITION	<u>\$ 347,336,746</u>

See independent auditors' report and notes to basic financial statements.

CITY OF LAKE FOREST

STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

Functions/programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 3,401,844	\$ 351	\$ 1,312	\$ 387,039
Public safety	13,112,376	585,640	145,817	-
Public works	16,586,125	972,382	3,763,836	4,476,664
Development services	3,365,898	3,809,208	-	-
Management services	3,921,282	36,251	-	-
Community services	2,982,195	325,946	59,698	29,385,775
Redevelopment/economic development	1,257,816	-	384,450	71,042
Interest on long-term liabilities	415,851	-	-	-
Total governmental activities	<u>\$ 45,043,387</u>	<u>\$ 5,729,778</u>	<u>\$ 4,355,113</u>	<u>\$ 34,320,520</u>

General revenues:

Taxes:

Property tax, levied for general purpose

Sales tax

Transient occupancy tax

Franchise tax

Other taxes

Investment income

Other

Total general revenues

Change in net position

Net position at beginning of year, as restated

Net position at end of year

See independent auditors' report and notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Position Governmental Activities
\$ (3,013,142) (12,380,919) (7,373,243) 443,310 (3,885,031) 26,789,224 (802,324) (415,851)
(637,976)
14,999,228 13,333,699 3,140,515 2,338,237 19,902 324,078 872,777
35,028,436
34,390,460
312,946,286
\$ 347,336,746

CITY OF LAKE FOREST
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2014

		Capital Projects Fund	
		Opportunities Study Area	Other Governmental Funds
	General		
ASSETS			
Cash and investments	\$ 42,802,297	\$ 10,794,990	\$ 16,485,732
Receivables:			
Taxes	2,157,380	-	-
Accounts	500,684	-	335
Interest	30,415	-	31
Grants	-	-	146,954
Loans	-	-	1,699,351
Due from other governments	23,746	31,729	441,753
Due from other funds	60,091	-	-
Prepaid items	163,350	-	-
Land held for resale	-	-	326,000
TOTAL ASSETS	<u>\$ 45,737,963</u>	<u>\$ 10,826,719</u>	<u>\$ 19,100,156</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 2,360,761	\$ 2,115,585	\$ 538,754
Accrued salaries and benefits	137,111	-	-
Retentions payable	-	1,418,507	121,632
Due to other funds	-	-	60,091
Unearned revenue	-	-	752,887
Deposits payable	427,836	-	-
TOTAL LIABILITIES	<u>2,925,708</u>	<u>3,534,092</u>	<u>1,473,364</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenues	30,000	31,729	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>30,000</u>	<u>31,729</u>	<u>-</u>
FUND BALANCES:			
Nonspendable	163,350	-	-
Restricted	-	7,260,898	13,812,650
Assigned	8,149,100	-	3,814,142
Unassigned	34,469,805	-	-
TOTAL FUND BALANCES	<u>42,782,255</u>	<u>7,260,898</u>	<u>17,626,792</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 45,737,963</u>	<u>\$ 10,826,719</u>	<u>\$ 19,100,156</u>

See independent auditors' report and notes to basic financial statements.

Total
Governmental
Funds

\$ 70,083,019

2,157,380

501,019

30,446

146,954

1,699,351

497,228

60,091

163,350

326,000

\$ 75,664,838

\$ 5,015,100

137,111

1,540,139

60,091

752,887

427,836

7,933,164

61,729

61,729

163,350

21,073,548

11,963,242

34,469,805

67,669,945

\$ 75,664,838

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CITY OF LAKE FOREST

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2014

Fund balances - total governmental funds	\$ 67,669,945
--	---------------

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets net of depreciation have not been included as financial resources in governmental funds.

Capital assets	\$ 390,894,854	
Accumulated depreciation	<u>(101,922,116)</u>	
		288,972,738

Long-term assets are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows of resources, unavailable revenues, in the fund financial statements.

Grants		61,729
--------	--	--------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. Long-term liabilities consists of the following:

Compensated absences	\$ (706,099)	
Certificates of participation bonds payable	<u>(9,970,000)</u>	
Total long-term liabilities		(10,676,099)

Governmental funds report contributions to OPEB and pension plans as expenditures when paid. Pre-funding is capitalized and expensed when due in the Statement of Net Position.

Other Post Employment Benefit Asset	\$ 217,140	
Pension asset	<u>600,430</u>	
		817,570

Interest expenditures are recognized in the governmental funds when due. Interest expense is recorded on the accrual basis in the government-wide financial statements, and therefore these statements reflect a liability for accrued interest payable.

(32,735)

Internal service funds are used by management to charge the costs of vehicle replacement to individual funds. The assets and liabilities of the internal service fund are included in the Statement of Net Position.

523,598

Net position of governmental activities	<u><u>\$ 347,336,746</u></u>
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See independent auditors' report and notes to basic financial statements.

CITY OF LAKE FOREST

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2014

	General	Capital Projects Fund Opportunities Study Area	Other Governmental Funds
REVENUES:			
Taxes	\$ 33,831,580	\$ -	\$ -
Licenses and permits	2,640,893	-	-
Intergovernmental	50,533	-	5,630,075
Charges for services	2,501,439	-	1,808
Developer contributions	-	29,346,691	3,146,131
Fines and forfeitures	585,640	-	-
Investment income	179,052	-	24,469
Other	811,245	39,083	700,401
TOTAL REVENUES	<u>40,600,382</u>	<u>29,385,774</u>	<u>9,502,884</u>
EXPENDITURES:			
Current:			
General government	3,243,702	-	-
Public safety	12,986,640	-	125,000
Public works	7,162,378	-	1,739,735
Development services	3,365,898	-	-
Management services	3,766,966	-	-
Community services	2,933,109	-	47,017
Redevelopment/economic development	1,080,653	-	177,164
Capital outlay	117,934	30,224,740	4,833,016
Debt service:			
Principal	-	-	995,000
Interest and fiscal charges	-	-	419,118
TOTAL EXPENDITURES	<u>34,657,280</u>	<u>30,224,740</u>	<u>8,336,050</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>5,943,102</u>	<u>(838,966)</u>	<u>1,166,834</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	10,000,000	1,815,048
Transfers out	(521,400)	-	(11,293,648)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(521,400)</u>	<u>10,000,000</u>	<u>(9,478,600)</u>
NET CHANGE IN FUND BALANCES	5,421,702	9,161,034	(8,311,766)
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR, AS RESTATED	<u>37,360,553</u>	<u>(1,900,136)</u>	<u>25,938,558</u>
FUND BALANCES - END OF YEAR	<u>\$ 42,782,255</u>	<u>\$ 7,260,898</u>	<u>\$ 17,626,792</u>

See independent auditors' report and notes to basic financial statements.

Total Governmental Funds
<hr/>
\$ 33,831,580
2,640,893
5,680,608
2,503,247
32,492,822
585,640
203,521
1,550,729
<hr/>
79,489,040
<hr/>

3,243,702
13,111,640
8,902,113
3,365,898
3,766,966
2,980,126
1,257,817
35,175,690
995,000
419,118
<hr/>
73,218,070
<hr/>

<hr/>
6,270,970
<hr/>

11,815,048
(11,815,048)
<hr/>
-
<hr/>

6,270,970

<hr/>
61,398,975
<hr/>

\$ 67,669,945
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CITY OF LAKE FOREST

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

Net change in fund balances - total governmental funds \$ 6,270,970

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense or allocated to the appropriate functional expense when the cost is below the capitalization threshold. Donated capital assets increase net position in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources. This activity is reconciled as follows:

Depreciation	\$ (5,899,706)	
Capital outlay, net of disposals	<u>33,253,267</u>	27,353,561

Some revenues reported in the Statement of Activities are not considered to be available to finance current expenditures and, therefore, are not reported as revenues in the governmental funds:

Intergovernmental		(55,192)
-------------------	--	----------

Some expenses reported in the Statement of Activities utilize current financial resources, but are not expensed in the Statement of Activities until due.

OPEB expense	\$ (50,024)	
Amortization of pension side fund	<u>(100,072)</u>	(150,096)

Compensated absences reported on the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The net change is reported on the Statement of Activities.

		(22,934)
--	--	----------

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and issuance cost of long-term debt consumes the current financial resources of the governmental funds. Issuance of bond principal is an other financing source and repayment of bond principal is an expenditure in governmental funds, but the issuance increases long-term liabilities and the repayment reduces long-term liabilities in the Statement of Net Position. This is the net change of the issuance of long-term debt and the principal repayments.

		995,000
--	--	---------

Accrued interest is interest due on long-term debt payable. This is the net change in accrued interest for the current period.

		3,267
--	--	-------

Internal service funds are used by management to charge the costs of vehicle replacement to individual funds. The net revenues of the internal service fund are reported with governmental activities.

		<u>(4,116)</u>
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Change in net position of governmental activities		<u><u>\$ 34,390,460</u></u>
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See independent auditors' report and notes to basic financial statements.

CITY OF LAKE FOREST
STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2014

	Governmental Activities
	<u>Internal Service Fund</u>
ASSETS:	
CURRENT ASSETS:	
Cash and investments	<u>\$ 399,924</u>
NONCURRENT ASSETS:	
Capital assets:	
Being depreciated	474,383
Less: accumulated depreciation	<u>(350,709)</u>
TOTAL NONCURRENT ASSETS	<u>123,674</u>
TOTAL ASSETS	<u>523,598</u>
NET POSITION:	
Investment in capital assets	123,674
Unrestricted	<u>399,924</u>
TOTAL NET POSITION	<u><u>\$ 523,598</u></u>

See independent auditors' report and notes to basic financial statements.

CITY OF LAKE FOREST

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND

For the year ended June 30, 2014

	Governmental Activities
	<u>Internal Service Fund</u>
OPERATING REVENUES:	
Current service charges	\$ 30,000
OPERATING EXPENSES:	
Depreciation expense	<u>37,116</u>
OPERATING LOSS	(7,116)
NON-OPERATING REVENUES:	
Gain on sale of fixed assets	<u>3,000</u>
CHANGE IN NET POSITION	(4,116)
NET POSITION AT BEGINNING OF YEAR	<u>527,714</u>
NET POSITION AT END OF YEAR	<u><u>\$ 523,598</u></u>

See independent auditors' report and notes to basic financial statements.

CITY OF LAKE FOREST
STATEMENT OF CASH FLOWS
PROPRIETARY FUND

For the year ended June 30, 2014

	Governmental Activities <u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from user departments	\$ 30,304
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	(55,825)
Proceeds from sale of capital assets	<u>3,000</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(52,825)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(22,521)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>422,445</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 399,924</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	\$ (7,116)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	37,116
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	<u>304</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 30,304</u></u>

See independent auditors' report and notes to basic financial statements.

CITY OF LAKE FOREST
STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

	Successor Agency to Lake Forest Redevelopment Agency Private-Purpose Trust Fund	Other Post- Employment Benefit (OPEB) Trust Fund	Agency Funds
ASSETS:			
Cash and investments	\$ 1,640,887	\$ -	\$ 465,116
Cash and investments held by trust	-	469,437	-
TOTAL ASSETS	1,640,887	469,437	\$ 465,116
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	1,853	-	\$ -
Interest payable	24,705	-	-
Deposits payable	-	-	465,116
TOTAL CURRENT LIABILITIES	26,558	-	\$ 465,116
LONG-TERM LIABILITIES:			
Due within one year	255,000	-	
Due in more than one year	7,125,000	-	
TOTAL LONG-TERM LIABILITIES	7,380,000	-	
TOTAL LIABILITIES	7,406,558	-	
NET POSITION:			
Restricted for private purpose	(5,765,671)	-	
Held in trust for OPEB benefits	-	469,437	
TOTAL NET POSITION	\$ (5,765,671)	\$ 469,437	

See independent auditor's report and notes to basic financial statements.

CITY OF LAKE FOREST

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2014

	Successor Agency to Lake Forest Redevelopment Agency Private-Purpose Trust Fund	Other Post- Employment Benefit (OPEB) Trust Fund
ADDITIONS:		
Other income	\$ 758,853	\$ -
Investment income	3,315	38,546
TOTAL ADDITIONS	762,168	38,546
DEDUCTIONS:		
Redevelopment/economic development	31,718	-
Interest and fiscal charges	301,620	-
Payments to city	355,281	-
Benefits	-	7,101
Administrative expense	-	4,330
TOTAL DEDUCTIONS	688,619	11,431
CHANGE IN NET POSITION	73,549	27,115
NET POSITION - BEGINNING OF YEAR	(5,839,220)	442,322
NET POSITION - END OF YEAR	<u>\$ (5,765,671)</u>	<u>\$ 469,437</u>

See independent auditor's report and notes to basic financial statements.

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CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Lake Forest (the City) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of the significant policies.

a. Description of the Reporting Entity:

This report includes all fund types of the City of Lake Forest (the “primary government”), the Lake Forest Housing Authority (the Housing Authority) and the Rancho Cañada Financing Authority (the Financing Authority). The Authorities meet the definition of a “component unit,” and are presented on a “blended” basis, as if they are part of the primary government. Although they are legally separate entities, the governing board of the Housing and Financing Authorities are comprised of the same membership as the City Council. The City may impose its will on the Housing and Financing Authorities, including the ability to appoint, hire, reassign, or dismiss management. There is also a financial benefit/burden relationship between the City, the Housing and Financing Authorities.

The City of Lake Forest was incorporated on December 20, 1991, under the laws of the State of California and enjoys all the rights and privileges pertaining to “General Law” cities. The City operates under a council-manager form of government and currently provides public safety, planning, building, code enforcement, engineering, street maintenance, street lighting, parks, recreation, and general administrative services.

The Lake Forest Housing Authority was established by the City Council in February 2011, and is partly responsible for the administration of providing affordable housing in the City. The activity of the Housing Authority is reported in the Special Revenue Fund.

The Rancho Cañada Financing Authority was established pursuant to the Rancho Cañada Financing Authority Joint Exercise of Powers Agreement, dated as of September 15, 1998, by and between the City and the Financing Authority, under the provision of Chapter 5, Division 7, Title 1 of the Government Code of the State. The Board of Directors of the Financing Authority is composed of the five members in connection with the acquisition, construction and improvement of public capital improvements, working capital requirements or insurance programs of the members. The activity of the Financing Authority is reported in the Debt Service Fund.

Separate financial statements for Lake Forest Housing Authority can be obtained from the City of Lake Forest Finance Department located at City Hall, 25550 Commercentre Drive, Suite 100, Lake Forest, California, 92630. The Rancho Cañada Financing Authority does not issue separate financial statements.

See independent auditors’ report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Accounting, Measurement Focus and Financial Statement Presentation:

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include a single column for the governmental activities of the primary government. The City of Lake Forest has no business-type activities. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary private-purpose trust and other post-employment benefit trust funds. The City's fiduciary agency funds have no measurement focus but utilize the accrual basis for reporting its assets and liabilities. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Accrual basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the City are reported in three categories:

1. Charges for services,
2. Operating grants and contributions, and
3. Capital grants and contributions.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Accounting, Measurement Focus and Financial Statement Presentation (Continued):

Government-Wide Financial Statements (Continued)

Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenses. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Certain eliminations have been made in regards to interfund transfers, payables and receivables. All internal balances in the Statement of Net Position have been eliminated. Internal service fund activity has been eliminated and net balances are included in the governmental activities. Interfund services provided and used, if any, are not eliminated in the consolidation process.

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental funds and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and other governmental funds in the aggregate for governmental funds. Fiduciary fund statements include financial information for private-purpose trust, other post-employment benefit trust and agency funds. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Accounting, Measurement Focus and Financial Statement Presentation (Continued):

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 90 days, except for property taxes which is 60 days.

Sales taxes, property taxes, franchise fees, gas taxes, motor vehicle in lieu fees, highway user's taxes, transient occupancy taxes, grants and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available where cash is received by the government.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources are generally included on their balance sheets. The reported fund balance is considered to be a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables between governmental funds are reported on their balance sheets in spite of their spending measurement focus.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Accounting, Measurement Focus and Financial Statement Presentation (Continued):

Governmental Funds (Continued)

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect fund balance, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Proprietary Fund

Proprietary fund types are accounted for using the *economic resources measurement focus* and *accrual basis of accounting*. This means that all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or non-current) associated with the activity are included on the statement of net position. Their reported fund equity presents total net position. The operating statement of the proprietary fund presents increases (revenues) and decreases (expenses) in total net position. Revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's internal service fund are charges to departments for vehicle replacement charges. The primary operating expense for the internal service fund is depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City's internal service fund is presented in the proprietary fund financial statements. Because the principal users of the internal services are the City's governmental activities, the financial statements of the internal service fund are consolidated into the governmental activities column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (general government). The City uses the internal service fund to account for vehicle replacement activities.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Accounting, Measurement Focus and Financial Statement Presentation (Continued):

Fiduciary Funds

Fiduciary Fund Financial Statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The City's Fiduciary private-purpose trust fund and OPEB trust fund are accounted for using the economic resources measurement focus and accrual basis of accounting. The private purpose trust fund accounts for the assets held by the City for the Successor Agency to the Lake Forest Redevelopment Agency. The OPEB trust fund accounts for the activities of the City's plan for post-retirement medical benefits. The City's Fiduciary agency funds have no measurement focus but utilize the accrual basis for reporting its assets and liabilities. Because these funds are not available for use by the City, fiduciary funds are not included in the governmental-wide statements. The City uses agency funds to account for the collection and disbursement of funds for Orange County road construction programs, the State of California Strong Motion Instrumentation Program, and the State of California Building Standards Commission's green building standards program.

c. Fund Classifications:

The City reports the following major governmental funds:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Opportunities Study Area Capital Projects Fund

This fund is used to account for costs to design and construct a sports park, recreation center, meeting facility, and a civic center. This fund is currently funded by developer impact fees to construct these facilities.

The City's fund structure also includes the following fund types:

The Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted or otherwise assigned for specific purposes.

The Financing Authority Debt Service Fund is used to account for debt service activity for the 2011 Lease Financing Certificates of Participation.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Fund Classifications (Continued):

The Capital Projects Funds are used to account for resources restricted or assigned for capital improvements.

The Internal Service Fund is used to account for the cost of replacing the City's vehicles.

The Private Purpose Trust Fund is used to account for the activities of the Successor Agency to the Lake Forest Redevelopment Agency.

The Other Post-Employment Benefit Trust Fund is used to account for the activities of the City's plan for post-retirement medical benefits.

The Agency Funds are used to account for special deposits for which the City acts as an agent for all special deposit activity.

d. New Accounting Pronouncements:

Current Year Standards:

GASB 65 - "*Items Previously Reported as Assets and Liabilities*", required to be implemented in the current fiscal year. This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the implementation of this statement, deferred bond costs, which should be recognized as an expense in the period incurred, were eliminated. Also, due to the implementation of this statement, loans receivable, which were previously offset by deferred revenue should be a balance sheet item only and should not be offset by deferred inflows of resources or unearned revenue. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation was to decrease the net position at July 1, 2013 by \$65,673 of the governmental activities, which is the amount of bond issue costs at July 1, 2013. The implementation also increased the fund balances of the governmental funds at July 1, 2013 by \$1,631,358, with is the amount of previously recorded deferred revenue at July 1, 2013.

GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", required to be implemented in the current fiscal year did not impact the City.

GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", required to be implemented in the current fiscal year did not impact the City.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

Pending Accounting Standards:

GASB has issued the following statements which may impact the City's financial reporting requirements in the future:

- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*", effective for periods beginning after June 15, 2014.

e. Cash and Cash Equivalents:

All cash and investments are held in the City's cash management pool. Therefore, for purposes of the statement of cash flows for the proprietary fund, the City considers the entire pooled cash and investment balance to be cash and cash equivalents.

f. Investments:

Investments are reported in the accompanying statement of net position at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings and changes in fair value. The City pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance, except for investment income associated with funds not legally required to receive pooled investment income which has been assigned to and recorded as revenue of the general fund, as provided by California Government Code Section 53647.

g. Prepaid Items:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the Government-Wide and Fund Financial Statements.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

h. Property Taxes:

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing, they become available. Available means due, or past due and receivable within the current period and collected within the current period or expected to be collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities in the current period.

Under California law, property taxes are assessed and collected by the counties at up to one percent of assessed value, plus other increases approved by the voters. The property taxes go into a pool and are then allocated to the cities based on complex formulas. The County of Orange collects property taxes for the City. Tax liens attach annually as of 12:01 a.m. on the first day of January, proceeding the fiscal year for which the taxes are levied. Taxes are levied on July 1 and cover the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on January 1 each year, and are delinquent, if unpaid, on August 31.

i. Capital Assets:

Capital assets, which include land, machinery and equipment (furniture, vehicles, computers, etc.), and infrastructure assets (street systems, storm drains, traffic signals, etc.), are reported in the Government-Wide Financial Statements and in the internal service fund of the Proprietary Fund Statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated or annexed capital assets are recorded at estimated value at the date of donation or annexation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Capital Assets (Continued):

Depreciation is recorded in the Government-Wide Financial Statements on a straight-line basis over the useful life of the assets as follows:

Buildings and improvements	10 years
Computers	3 years
Machinery and equipment	5 years
Vehicles	5 years
Furniture	7 years
Infrastructure:	
Traffic signals	25 years
Median improvements	25 years
Street system - Arterial	35 years
Street system - Residential	50 years
Storm drains	50 years

j. Land Held for Resale:

Land held for resale is carried at lower of cost or estimated net realizable value determined at the date of an executed disposition and development agreement. As of June 30, 2014, the Other Governmental Funds reported land held for resale in the amount of \$326,000.

k. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then. The City does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenues*, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues from one source: grants receivable collections. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. Long-Term Debt:

In the Government-Wide Financial Statements, long-term debt is reported as a liability in the Statement of Net Position. Premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Long-term debt is reported net of the applicable premiums or discount. Amortization of bond premiums or discounts is included in interest expense. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the Fund Financial Statements, premiums and discounts, as well as issuance costs, are recognized in the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

m. Compensated Absences:

In accordance with GASB Codification 660.110, an employee benefits payable liability is recorded for unused vacation and similar compensatory leave balances. The employee's entitlement to these balances is attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

n. Use of Estimates:

The preparation of basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2014 consisted of the following:

	Government Wide Statement of <u>Net Position</u>	Fiduciary Funds Statement of <u>Net Position</u>	<u>Total</u>
Cash and investments	\$ 70,482,943	\$ 2,106,003	\$ 72,588,946
Restricted:			
Cash and investments held by trust	<u>-</u>	<u>469,437</u>	<u>469,437</u>
Total Cash and investments	<u>\$ 70,482,943</u>	<u>\$ 2,575,440</u>	<u>\$ 73,058,383</u>

Cash and investments consist of cash on hand, deposits and investments, as noted below:

Cash on hand	\$ 1,350
Deposits with financial institutions	5,285,055
Investments	<u>67,771,978</u>
Total cash and investments	<u>\$ 73,058,383</u>

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by fiscal agent that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy. This table does not address investments of the employer contributions to the other post-employment benefit trust that are governed by the trust agreement.

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity *	Maximum Percentage of Portfolio *	Maximum Investment in One Issuer *
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	4 years	None	None
U.S. Agency Securities	Yes	4 years	60%	20%
Banker's Acceptances	Yes	180 days	20%	5%
Commercial Paper	Yes	180 days	15%	5%
Negotiable Certificates of Deposit	Yes	3 years	20%	5%
Non-negotiable Certificates of Deposit	Yes	2 years	20%	5%
Repurchase Agreements	Yes	30 days	10%	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	10%	\$ 1,000,000
Money Market Mutual Funds	Yes	2 years	10%	None
Mortgage Pass-Through securities	No	5 years	20%	None
County Pooled Investment Funds	No	None	None	None
California Asset Management Program	Yes	None	30%	None
State Investment Pool (LAIF)	Yes	None	\$50 million	None
JPA Pools (other investment pools)	Yes	None	30%	None

* - Based on state law requirements or investment policy requirements, whichever is more restrictive. The City may not invest in items that are permitted by the State but not permitted by the City's investment policy.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table:

Investment Type	Total	Weighted Average Maturity (in Years)
United States Government		
Sponsored Agency Securities	\$ 8,004,820	1.78
State Investment Pool (LAIF)	49,981,804	N/A
California Asset Management		
Program (CAMP)	8,242,187	N/A
Money Market Mutual Funds	1,073,730	N/A
Money Market Mutual Funds - OPEB Trust	469,437	N/A
	<u>\$ 67,771,978</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the Standard and Poor's or Moody's actual rating as of year end for each investment type:

Investment Type	Total as of June 30, 2014	Minimum Legal Rating	AAA	AA+	Not Rated
U.S. Government Sponsored					
Agency Securities	\$ 8,004,820	N/A	\$ -	\$ 8,004,820	\$ -
State Investment Pool (LAIF)	49,981,804	N/A	-	-	49,981,804
California Asset Management					
Program (CAMP)	8,242,187	N/A	8,242,187	-	-
Money Market Mutual Funds	1,073,730	A	1,073,730	-	-
Money Market Mutual Funds -					
OPEB Trust	469,437	N/A	-	-	469,437
Total	<u>\$ 67,771,978</u>		<u>\$ 9,315,917</u>	<u>\$ 8,004,820</u>	<u>\$ 50,451,241</u>

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code as noted on page 43. At June 30, 2014, there were no investments in any one issuer (other than Federal Farm Credit Banks, mutual funds and external investment pools) that represent 5 percent or more of total investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. At June 30, 2014, the City deposits (bank balances) were insured by the Federal Deposit Insurance Corporation or collateralized as required under California Law.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's prorate share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

California Asset Management Program (CAMP)

The City invests in this investment trust, which is similar to a money market mutual fund. The fund invests primarily in certificates of deposit, commercial paper, and U.S. Government and Agency obligations. The City is a voluntary participant in the investment trust.

The CAMP Cash Reserve Portfolio (the "Pool") is exempt from registration with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940, but operates in a manner consistent with SEC Rule 2a-7, "Money Market Funds", of that Act. Accordingly, the Pool meets the definition of a "2a-7 like pool" set forth in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. While the Pool itself is exempt from SEC registration, the Pool's Investment advisor and administrator, PFM Asset Management LLC, is registered with the SEC as an investment advisor under the Investment Advisors Act of 1940. PFM Asset Management LLC has filed with the California Department of Corporations, as well as various other states, as an investment advisor under state securities laws. In addition, the Pool also meets the definition of "Municipal Fund Security" outlined by Municipal Securities Rulemaking Board ("MSRB") Rule 0-12, therefore contacts with prospective investors relating to shares of the Pool are conducted through PFM Asset Management's wholly owned subsidiary, PFMAM, Inc., a broker/dealer that is registered with the SEC and MSRB, and is a member of the National Association of Securities Dealers ("NASD"). The Pool also files an income tax return annually with the Internal Revenue Service, though the net income of the Pool is generally exempt from federal income tax.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

3. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2014 is as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 110,121,871	\$ -	\$ -	\$ 110,121,871
Construction in progress	<u>15,809,555</u>	<u>30,307,442</u>	<u>(411,383)</u>	<u>45,705,614</u>
Total capital assets, not being depreciated	<u>125,931,426</u>	<u>30,307,442</u>	<u>(411,383)</u>	<u>155,827,485</u>
Capital assets, being depreciated:				
Buildings and improvements	1,742,934	-	-	1,742,934
Machinery and equipment	2,646,897	137,191	(73,158)	2,710,930
Infrastructure	<u>227,872,352</u>	<u>3,275,842</u>	<u>(60,306)</u>	<u>231,087,888</u>
Total capital assets, being depreciated	<u>232,262,183</u>	<u>3,413,033</u>	<u>(133,464)</u>	<u>235,541,752</u>
Less accumulated depreciation for:				
Buildings and improvements	(427,956)	(78,035)	-	(505,991)
Machinery and equipment	(2,447,548)	(97,435)	73,158	(2,471,825)
Infrastructure	<u>(93,593,963)</u>	<u>(5,761,352)</u>	<u>60,306</u>	<u>(99,295,009)</u>
Total accumulated depreciation	<u>(96,469,467)</u>	<u>(5,936,822)</u>	<u>133,464</u>	<u>(102,272,825)</u>
Total capital assets, being depreciated, net	<u>135,792,716</u>	<u>(2,523,789)</u>	<u>-</u>	<u>133,268,927</u>
Capital assets, net	<u>\$ 261,724,142</u>	<u>\$ 27,783,653</u>	<u>\$ (411,383)</u>	<u>\$ 289,096,412</u>

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

3. CAPITAL ASSETS (CONTINUED):

Construction in progress consists primarily of infrastructure, the sports park, and the recreation center.

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 81,068
Public safety	736
Public works, including depreciation of infrastructure assets	5,761,589
Management services	54,244
Community services	2,069
Depreciation on capital assets held by the City's internal service fund are charged to the various functions based on their usage of the assets	<u>37,116</u>
Total depreciation expense - governmental activities	<u>\$ 5,936,822</u>

Construction Commitments

As of June 30, 2014, budgeted funds committed for major capital projects included the following projects:

	<u>Project Budget</u>	<u>Expenditures to Date</u>	<u>Unexpended Balance</u>
Sports park	\$ 90,055,300	\$ 74,697,614	\$ 15,357,686

4. INTERFUND ACTIVITIES:

Due From/Due To Other Funds

Amounts due from and due to other funds at June 30, 2014 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Fund:	
	Community Development Block	
	Grant Special Revenue Fund	<u>\$ 60,091</u>

The interfund balance reflected above represents short-term borrowings of cash pending receipt of reimbursements from granting agencies and others.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. INTERFUND ACTIVITIES (CONTINUED):

Interfund Transfers

Interfund transfers during the year ended June 30, 2014 consisted of the following:

<u>Governmental Activities</u>	<u>Purpose</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
General Fund	Program support	\$ -	\$ (521,400)	\$ (521,400)
Opportunities Study Area Capital Projects Fund	Program support	10,000,000	-	10,000,000
Other Governmental Funds:				
Finance Authority Debt Service Fund	Program support and debt service	1,293,648	(10,000,000)	(8,706,352)
Capital Improvement Projects Capital Projects Fund	Program support and debt service	<u>521,400</u>	<u>(1,293,648)</u>	<u>(772,248)</u>
		<u>\$ 11,815,048</u>	<u>\$ (11,815,048)</u>	<u>\$ -</u>

5. LONG-TERM LIABILITIES:

The change in the City's long-term liabilities during the year ended June 30, 2014 consisted of the following:

	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2014</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
2011 Certificates of Participation	\$ 10,965,000	\$ -	\$ (995,000)	\$ 9,970,000	\$ 700,000	\$ 9,270,000
Compensated absences	<u>683,165</u>	<u>485,358</u>	<u>(462,424)</u>	<u>706,099</u>	<u>462,400</u>	<u>243,699</u>
Total long-term liabilities	<u>\$ 11,648,165</u>	<u>\$ 485,358</u>	<u>\$ (1,457,424)</u>	<u>\$ 10,676,099</u>	<u>\$ 1,162,400</u>	<u>\$ 9,513,699</u>

2011 Certificates of Participation

On August 1, 2011, the Rancho Cañada Financing Authority issued \$10,965,000 in Certificates of Participation for the Alton Parkway Improvement Project. Interest is payable beginning December 1, 2011, and semiannually on each June 1 and December 1. The interest rate ranges from 1.97% to 3.94%. The certificates mature serially beginning December 1, 2013 through December 1, 2025. The outstanding balance at June 30, 2014 was \$9,970,000.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

5. LONG-TERM LIABILITIES (CONTINUED):

2011 Certificates of Participation (Continued)

The Certificates utilize an asset transfer structure, whereby, concurrent with the debt issuance, the City entered into a lease agreement with the Rancho Cañada Financing Authority with respect to Foothill Ranch Community Park and Tamarisk Park, (collectively, the “Leased Property”). The City will sublease the Leased Property to the Authority, and the Authority will sublease the property to the City. The City is obligated to pay lease payments under the lease agreement from any legally available monies. The lease payments are calculated to be an amount sufficient to pay all principal and interest represented by the Certificates when due.

Annual debt service requirements to maturity for these Certificates of Participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 700,000	\$ 386,022	\$ 1,086,022
2016	735,000	358,146	1,093,146
2017	755,000	328,991	1,083,991
2018	790,000	298,948	1,088,948
2019	815,000	267,526	1,082,526
2020-2024	4,615,000	822,380	5,437,380
2025-2026	<u>1,560,000</u>	<u>61,957</u>	<u>1,621,957</u>
	<u>\$ 9,970,000</u>	<u>\$ 2,523,970</u>	<u>\$ 12,493,970</u>

The Certificates of Participation are subject to federal arbitrage regulations. The City has no arbitrage calculation due until August 2016.

Compensated Absences

The City’s policies relating to employee leave benefits are described in Note 1m. This liability will be paid in future years from future resources primarily from the General Fund. As of June 30, 2014, the outstanding balance was \$706,099.

See independent auditors’ report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

Plan Description

In connection with the retirement benefits for employees described in Note 12, the City provides post-retirement medical benefits to retirees. The Plan is a multi-employer defined benefit plan with PARS. These benefits are available to employees who retire with the City with at least 5 years of service with a minimum retirement age of 50 years. The retiree is entitled to participate in the City sponsored medical plan and the City contributes up to \$80.50 per month toward the premium for employee only coverage under the City sponsored medical plans. The Plan does not issue a publicly available financial report. In fiscal year 2010-2011, the City established the other post-employment benefit trust and deposited \$200,000 in an irrevocable trust. An additional deposit of \$242,100 was made in fiscal year 2012-2013. No deposits were made in fiscal year 2013-2014. The plan and trust are reported as a fiduciary fund other post-employment benefit trust.

Below is the plan participant data as of June 30, 2014:

Retirees and beneficiaries receiving benefit	8
Active plan members	<u>62</u>
Total plan participants	<u>70</u>

Accounting for the Plan

The other post-employment benefit trust is prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments

Investments are reported at fair value, which is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian with the assistance of a valuation service.

Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City, the City's City Council, and/or the employee associations. The City did not have a contribution for the fiscal year 2013-2014. The plan does not require employee contributions. Administrative costs of this plan are financed through investment earnings.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

Annual OPEB Cost and Net OPEB Asset

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB asset to the Retiree Health Plan:

Annual required contribution	\$ 50,024
Interest on net OPEB asset	(14,026)
Adjustment to annual required contribution	<u>14,026</u>
Annual OPEB cost (expense)	50,024
Actual contributions made	<u>-</u>
Decrease in net OPEB asset	50,024
Net OPEB Asset - beginning of year	<u>(267,164)</u>
Net OPEB Asset - end of year	<u><u>\$ (217,140)</u></u>

The City's annual OPEB cost, the actual contributions, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for the three years ended June 30, 2014, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
06/30/12	\$ 71,206	\$ 204,338	287.0 %	\$ (69,925)
06/30/13	50,024	247,263	494.3 %	(267,164)
06/30/14	50,024	-	0.0 %	(217,140)

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 90.2% funded (actuarial value of assets as a percentage of actuarial accrued liability). The actuarial accrued liability for benefits was \$499,136, and the actuarial value of assets was \$450,239, resulting in an unfunded actuarial accrued liability (UAAL) of \$48,897. Assets were valued using a five year smoothing formula with a 20% corridor around market value. The covered payroll (annual payroll of active employees covered by the plan) was \$5,201,037 and the ratio of the UAAL to the covered payroll was 0.94%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress and the schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits and the percentage of the annual required contribution that was contributed.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the June 30, 2013 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included an investment interest rate of 5.25% per annum (net of administrative expenses), and a general inflation rate of 2.75% per annum. Medical premiums were assumed to increase annually at a rate of 4%. The UAAL is being amortized as a level percentage of projected payroll over 30 years on a closed basis for the initial UAAL and an open 30 year amortization for any residual UAAL.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

7. RISK MANAGEMENT:

Description of Self-insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the California Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is composed of 119 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et. seq. The purpose of the Insurance Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The Insurance Authority began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors which operates through a nine-member Executive Committee.

Self-Insurance Programs of the Insurance Authority

Each member pays an annual contribution to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

Liability - In the liability program, claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims for \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. The \$2.5 million annually aggregate deductible is fully covered under a separate policy; as such no portion of it is retained by the Insurance Authority. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. The \$3 million annual aggregate deductible is fully retained by the Insurance Authority. (6) Costs of covered claims from \$15 million to \$20 million are paid under reinsurance agreements. (7) Costs of covered claims from \$20 million to \$50 million are paid under excess insurance policies.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

7. RISK MANAGEMENT (CONTINUED):

Self-Insurance Programs of the Insurance Authority (Continued)

The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$30 million per occurrence. This \$30 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$15 million in reinsurance, subject to the same annual aggregate deductibles previously stated, and (c) \$10 million in excess insurance. The excess insurance layer has a \$10 million annual aggregate limit.

Self-Insurance Programs of the Insurance Authority (Continued)

Workers' Compensation - In the workers' compensation program claims are pooled separately between public safety (police and fire) and non-public-safety exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$100,000 up to the reinsurance attachment point of \$2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Worker's Compensation Law.

Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$5 million is purchased as part of a reinsurance policy, and Employer's Liability losses from \$5 million to \$10 million are pooled among members.

Purchased Insurance

Property Insurance. The City participates in the all-risk property protection program of the Insurance Authority. This insurance protection is underwritten by several insurance companies. The City's property is currently insured according to a schedule of covered property submitted by the City to the Insurance Authority. City property currently has all-risk property insurance protection in the amount of \$14,335,947. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

7. RISK MANAGEMENT (CONTINUED):

Purchased Insurance (Continued)

Earthquake and Flood Insurance. The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Insurance Authority. City property currently has earthquake protection in the amount of \$2,965,105. There is a deductible of 5% of per unit of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Crime Insurance. The City purchases crime insurance coverage in the amount of \$3,000,000 with a \$25,000 deductible. The fidelity coverage is provided through the Insurance Authority. Premiums are paid annually and are not subject to retrospective adjustments.

Adequacy of Protection

During the past three fiscal years, none of the above programs of protection have experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2013-2014.

8. CLASSIFICATION OF NET POSITION AND GOVERNMENTAL FUND BALANCES:

Net Position Classifications

The City's net position at June 30, 2014 is tabulated below, followed by explanations as to the nature and purpose of each classification.

Net investment in capital assets:

Capital assets, not being depreciated	\$ 155,827,485
Depreciable capital assets, net	133,268,927
Certificates of participation	<u>(9,970,000)</u>
Net investment in capital assets	<u>279,126,412</u>

Restricted net position:

Low and moderate income housing	2,203,752
Redevelopment/economic development	1,338,879
Public safety	106,479
Public works	8,305,933
Community services	<u>9,118,505</u>
Total restricted net position	<u>21,073,548</u>

Unrestricted net position	<u>47,136,786</u>
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Total net position	<u>\$ 347,336,746</u>
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See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

8. CLASSIFICATION OF NET POSITION AND GOVERNMENTAL FUND BALANCES
(CONTINUED):

Net Position Classifications (Continued)

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation on these assets and related long-term debt used to acquire the assets reduces this category.

Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This category represents the net position of the City that is not restricted for any project or other purpose.

Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the City's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

8. CLASSIFICATION OF NET POSITION AND GOVERNMENTAL FUND BALANCES
(CONTINUED):

Governmental Fund Balance Classifications

The City's governmental fund balances at June 30, 2014 are tabulated below, followed by explanations as to the nature and purpose of each classification.

	General Fund	Opportunities Study Area Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepaid items	\$ 163,350	\$ -	\$ -	\$ 163,350
Restricted for:				
Street maintenance	-	-	2,372,357	2,372,357
Air quality	-	-	920,555	920,555
Grant programs	-	-	1,645,289	1,645,289
Housing programs	-	-	2,203,752	2,203,752
Capital projects	-	7,260,898	6,670,697	13,931,595
Assigned for:				
Emergency services	3,000,000	-	-	3,000,000
Economic contingency	5,149,100	-	-	5,149,100
Capital projects	-	-	3,814,142	3,814,142
Unassigned	34,469,805	-	-	34,469,805
	<u>\$ 42,782,255</u>	<u>\$ 7,260,898</u>	<u>\$ 17,626,792</u>	<u>\$ 67,669,945</u>

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed Fund Balance - This classification includes amounts that have been limited to specific purposes as defined in the City's Municipal Code or through adoption of an ordinance by the City Council, the highest level of decision making authority of the City. These commitments may be changed or lifted but only by the same formal action that was used to impose the constraint originally. City Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be subsequently determined.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

8. CLASSIFICATION OF NET POSITION AND GOVERNMENTAL FUND BALANCES
(CONTINUED):

Governmental Fund Balance Classifications (Continued)

Assigned Fund Balance - This classification includes amounts that are intended to be used by the City for specific purposes through the City Council budgetary actions but do not meet the criteria to be classified as restricted or committed. Intent is expressed by the City Council. The City Council has not delegated the authority to assign amounts.

Unassigned Fund Balance - This classification includes the residual balance for the government's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the City's policy is to apply committed fund balance first, and then assigned fund balance, and finally unassigned fund balance.

9. OPERATING LEASES:

The City leases the City Hall facility and other equipment under noncancelable operating leases. The City Hall lease expires June 30, 2018 with monthly lease payments ranging from \$49,631 to \$54,232. The various equipment leases expire in July 2015 through May 2019 with monthly lease payments of \$1,362. Facility and equipment lease expense for the year ended June 30, 2014 was \$764,762.

The future minimum lease payments for these leases for the next five years are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2015	\$ 611,912
2016	617,415
2017	634,694
2018	653,649
2019	2,625
	<u>\$ 2,520,295</u>

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

10. JOINT VENTURE:

In January 1995, the City of Lake Forest entered into a joint powers agreement with Cities of Buena Park, Cypress, Dana Point, Irvine, Laguna Hills, Laguna Niguel, La Palma, Los Alamitos, Mission Viejo, Placentia, San Clemente, San Juan Capistrano, Seal Beach, Stanton, Tustin, Villa Park, and Yorba Linda, and the County of Orange to create the Orange County Fire Authority (Authority). Since the creation of the Authority, the cities of Aliso Viejo, Laguna Woods, Rancho Santa Margarita, and Westminster joined the Authority as members eligible for fire protection services. The purpose of the Authority is to provide for mutual fire protection, prevention and suppression services, and related and incidental services, including, but not limited to, emergency medical and transport services, as well as providing facilities and personnel for such services. The effective date of formation was March 1, 1995. The Authority's governing board consists of one representative from each city and two from the County. The operations of the Authority are funded with structural fire fees collected by the County through the property tax roll for the unincorporated area and on behalf of all member cities except for the Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia, and Seal Beach. The County pays all structural fire fees it collects to the Authority. The Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia, and Seal Beach are considered "cash contract cities" and, accordingly, make cash contributions based on the Authority's annual budget. No determination has been made as to each participant's proportionate share of fund equity as of June 30, 2014. Upon dissolution of the Authority, all surplus money and property of the Authority will be conveyed or distributed to each member in proportion to all funds provided to the Authority by that member or by the County on behalf of that member during its membership.

Complete financial statements may be obtained from the Orange County Fire Authority, 180 South Water Street, Orange, California 92866.

11. DEFERRED COMPENSATION PLANS:

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The plan is available to all employees until termination, retirement, death or unforeseeable emergency. The assets of the plan are held for the exclusive benefit of the plan participants and their beneficiaries and the assets shall not be diverted for any other purpose. Each participant directs the investments in their respective accounts and the City has no liability for any losses that may be incurred. Pursuant to federal legislation, the Section 457 plan assets were placed in trust for the exclusive benefit of all employees and their beneficiaries and are not available to the creditors of the City. For this reason, the assets and related liabilities of the plan have been removed from the financial records of the City and are not included in the accompanying financial statements.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

11. DEFERRED COMPENSATION PLANS (CONTINUED):

Effective July 1, 2005, the City established the PARS Retirement Enhancement Plan, a 401(a) defined contribution for the City manager. The plan provides a supplemental retirement benefit in addition to CalPERS retirement benefit. An employee shall participate in this plan if he is employed as City Manager of the City as of July 1, 2005. The participant contributes a percentage of his compensation pursuant to the tier prescribed in the plan. The amount of contribution ranges from 0% to 20% of compensation and will be determined by the City. The participant set at a contribution level other than 0% may not change his contribution percentage at any time. The participant initially set at 0% will be reviewed annually by the City for changes in contribution percentage. The City makes monthly contributions to the plan in an amount determined annually by the City subject to IRC 415 limits. The assets of the plan are held for the exclusive benefit of the plan participant and his beneficiaries and the assets shall not be diverted for any other purpose. The participant directs the investments in their respective accounts and the City has no liability for any losses that may be incurred. Pursuant to federal legislation, the Section 401(a) plan assets were placed in trust for the exclusive benefit of the employee and his beneficiaries and are not available to the creditors of the City. For this reason, the assets and related liabilities of the plan have been removed from the financial records of the City and are not included in the accompanying financial statements.

12. PENSION PLANS:

Defined Benefit Plan

Plan Description

The City participates in the Miscellaneous 2% at 55 and 2% at 62 Risk Pools of the California Public Employees Retirement System (CalPERS), cost sharing multiple-employer defined benefit pension plans. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries.

CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost-sharing plans that are administered by CalPERS. Copies of the CalPERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

12. PENSION PLANS (CONTINUED):

Defined Benefit Plan (Continued)

Contributions and Funding Policy

The contribution rate for plan members in the CalPERS 2% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary, which is paid by the employees. The required employer contribution rates for the 2% at 55 Risk Pool Retirement Plan for fiscal years 2014, 2013, and 2012 were 10.781%, 10.238%, and 12.17%, respectively. This plan is open to qualified employees (employees hired before January 1, 2013 or employees hired after January 1, 2013 and have been in the CalPERS System).

Upon the implementation of the California Employees' Pension Reform Act (PEPRA) on January 1, 2013, the CalPERS 2% at 62 Risk Pool Retirement Plan was created and is open to all new employees who do not qualify for the 2% at 55 Risk Pool Retirement Plan. Active plan members of the Plan are required to contribute 6.25% of their annual covered salary, which is paid by the employees. The required employer contribution rate of the fiscal year ended June 30, 2014 for the Miscellaneous 2% at 62 Risk Pool was 6.25%.

Benefit provisions and all other requirements are established by State statute and benefit provided by the City through local ordinance or resolution. The contribution requirements of plan members and the City are established and may be amended by City Council. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions are those adopted by the CalPERS Board of Administration. The City's contributions to the plans for the years ended June 30, 2012, 2013 and 2014 were \$634,180, \$533,589, and \$574,848, respectively, and were equal to the required contributions for each year.

Defined Contribution Plan

Omnibus Budget Reconciliation Act of 1990 (OBRA 90) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by Social Security or an alternate plan.

In accordance with this federal law, the City provides pension benefits for all part-time, seasonal and temporary employees through the City of Lake Forest Alternate Retirement System Plan administered by the Public Agency Retirement System (PARS-ARS). PARS-ARS is a defined contribution pension plan and benefits depend solely on amounts contributed to the plan plus investment earnings.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

12. PENSION PLANS (CONTINUED):

Defined Contribution Plan (Continued)

Federal legislation requires defined contributions to the retirement plan of at least 7.5% of the employee's salary. Accordingly, contributions to the plan consist of 6.2% by the employee and 1.3% by the City. All part-time, seasonal or temporary employees are immediately eligible to participate in the plan from the date of employment and all contributions are fully vested. The contribution requirements are established by Federal statutes and may be amended by the Federal government.

For the year ended June 30, 2014, the City's payroll covered by the plan was \$464,807. Contributions to the plan totaled \$34,860 with employee contributions in the amount of \$28,818 (6.2% of current covered payroll) and City contributions in the amount of \$6,042 (1.3% of current covered payroll).

Prepayment of Pension (Side Fund) Asset to the California Public Retirement System (CalPERS)

The City's CalPERS Miscellaneous Pension Plan which has less than 100 active members was required to enroll in a CalPERS risk-sharing pool in 2003. As part of that enrollment process, CalPERS calculated the funded status of each Plan and compared that amount to the funded status of the risk pool at inception. The difference (side-fund liability) for these Plans was financed by CalPERS at the assumed rate of return of the CalPERS pooled investment fund over a closed period equal to the average amortization period at the plan's date of entry into the CalPERS Risk Pool, which was 15 years for the City. On June 19, 2012, via City Council action, the City elected to prepay the remaining balance of the side fund liability totaling \$800,574. This amount has been capitalized as *Pension asset* in the Statement of Net Position and will be amortized on a straight-line basis through June 30, 2020 which would have been the remaining life of the side fund if prepayment had not occurred. At June 30, 2014, the unamortized portion of the *Pension asset* was \$600,430, and amortization expense for the fiscal year was \$100,072.

13. COMMITMENTS AND CONTINGENCIES:

Litigation

The City is involved as a defendant in various legal proceedings. While it is not feasible to predict or determine the outcome in these cases, it is the opinion of the City that the outcome will have no material adverse effect on the financial position of the City.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

13. COMMITMENTS AND CONTINGENCIES (CONTIUED):

Federal and State Grants

The City has received State and Federal funds for specific purposes that are subject to review by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that required reimbursements, if any, will not be material.

2004 Certificates of Participation

On March 1, 2004, the Rancho Cañada Financing Authority issued \$9,505,000 in Certificates of Participation. The outstanding balance at June 30, 2014 was \$7,380,000. Upon dissolution of the Lake Forest Redevelopment Agency on February 1, 2012, these Certificates of Participation were transferred to the Successor Agency (see Note 15). The debt service payments have been approved by the State of California Department of Finance as an enforceable obligation of the Successor Agency, should the Department of Finance change its position, this would become an obligation of the City.

14. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES:

On June 29, 2011, Assembly Bills 1x 26 (the "Dissolution Act") and 1x 27 were enacted as part of the fiscal year 2011-12 state budget package, which dissolved the redevelopment agency.

On June 27, 2012, as part of the fiscal year 2012-13 state budget package, the Legislature passed and the Governor signed AB 1484, which made technical and substantive amendments to the Dissolution Act based on experience to-date at the state and local level in implementing the Dissolution Act.

Under the Dissolution Act, each California redevelopment agency (each a "Dissolved RDA") was dissolved as of February 1, 2012, and the sponsoring community that formed the Dissolved RDA, together with other designated entities, have initiated the process under the Dissolution Act to unwind the affairs of the Dissolved RDA. A Successor Agency was created for each Dissolved RDA which is the sponsoring community of the Dissolved RDA unless it elected not to serve as the Successor Agency. On January 17, 2012, the City elected to serve as the Successor Agency to the Lake Forest Redevelopment Agency.

The Dissolution Act also created oversight boards which monitor the activities of the successor agencies. The roles of the successor agencies and oversight boards is to administer the wind down of each Dissolved RDA which includes making payments due on enforceable obligations, disposing of the assets (other than housing assets) and remitting the unencumbered balances of the Dissolved RDAs to the County Auditor-Controller for distribution to the affected taxing entities.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

14. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (CONTINUED):

The Dissolution Act allowed the sponsoring community that formed the Dissolved RDA to elect to assume the housing functions and take over the certain housing assets of the Dissolved RDA. If the sponsoring community does not elect to become the Successor Housing Agency and assume the Dissolved RDA's housing functions, such housing functions and all related housing assets will be transferred to the local housing authority in the jurisdiction. AB 1484 modified and provided some clarifications on the treatment of housing assets under the Dissolution Act. The Lake Forest Housing Authority elected on January 17, 2012 to serve as the Housing Successor Agency.

As of the date of dissolution, the housing assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in the Housing Authority Special Revenue Fund in the financial statements of the City. All other assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The Dissolution Act and AB 1484 also establish roles for the County Auditor-Controller, the California Department of Finance (the "DOF") and the California State Controller's office in the dissolution process and the satisfaction of enforceable obligations of the Dissolved RDAs.

The County Auditor-Controller is charged with establishing a Redevelopment Property Tax Trust Fund (the "RPTTF") for each Successor Agency and depositing into the RPTTF for each six-month period the amount of property taxes that would have been redevelopment property tax increment had the Dissolved RDA not been dissolved. The deposit in the RPTTF fund is to be used to pay to the Successor Agency the amounts due on the Successor Agency's enforceable obligations for the upcoming six-month period.

The Successor Agency is required to prepare a recognized obligation payment schedule (the "ROPS") approved by the oversight board setting forth the amounts due for each enforceable obligation during each six month period. The ROPS is submitted to the DOF for approval. The County Auditor-Controller will make payments to the Successor Agency from the RPTTF fund based on the ROPS amount approved by the DOF. The ROPS is prepared in advance for the enforceable obligations due over the next six months.

The process of making RPTTF deposits to be used to pay enforceable obligations of the Dissolved RDA will continue until all enforceable obligations have been paid in full and all non-housing assets of the Dissolved RDA have been liquidated.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

14. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (CONTINUED):

The State Controller of the State of California has been directed to review the propriety of any transfers of assets between Dissolved RDA and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency. The State Controller completed its review on October 21, 2014 and did not identify any unallowable transfers of assets that occurred during the audit between the former RDA, the City or other public agencies that had not already been corrected by the City.

As part of the dissolution process AB1484 required the Successor Agency to have due diligence reviews of both the low and moderate income housing funds and all other funds to be completed by October 15, 2012 and January 15, 2013 to compute the funds (cash) which were not needed by the Successor Agency to be retained to pay for existing enforceable obligations. These funds were to be remitted to the CAC after the DOF completed its review of the due diligence reviews. The Successor Agency made payments totaling \$9,751,501 to the CAC as a result of the due diligence review.

The DOF issued a Finding of Completion on April 26, 2013 in which DOF concurred that the Successor Agency has made full payments of any payments required as a result of the due diligence reviews. The Successor Agency was not required to adopt a Long Range Property Management Program (LRPMP).

The Finding of Completion, and finding that the loans were for legitimate redevelopment purposes allowed the placement of formerly disallowed expenditures between the former redevelopment agency and the City on the ROPS in fiscal year 2013-14. This resulted in the loan repayment from the Successor Agency to the City totaling \$355,281 in fiscal year 2013-14. As required by law, 20% of the loan repayment from the Successor Agency, totaling \$71,056, is reported in the Housing Authority Special Revenue Fund, which serves as the Low and Moderate Income Housing Asset Fund. The remainder of the loan repayment, totaling \$284,225, is reported in the General Fund. The loan has been repaid in full as of June 30, 2014.

Management believes, in consultation with legal counsel, that the obligations which includes transfers and repayment of advances for the City of the Dissolved RDA due to the City are valid enforceable obligations payable by the Successor Agency under the requirements of the Dissolution Act and AB 1484. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

15. SUCESSOR AGENCY DISCLOSURES:

Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014 was as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014	Due Within One Year	Due in More Than One Year
2004 Certificates of Participation	\$ 7,625,000	\$ -	\$ (245,000)	\$ 7,380,000	\$ 255,000	\$ 7,125,000

2004 Certificates of Participation

On March 1, 2004, the Rancho Cañada Financing Authority issued \$9,505,000 in Certificates of Participation to partially finance the EI Toro Road Traffic and Landscape Improvement Project. Interest is payable beginning June 1, 2004, and semiannually on each June 1 and December 1. The interest rate of this debt at the date of issue ranges from 2.80% to 4.25%. The certificates mature serially beginning December 1, 2004 through December 1, 2033. A reserve surety bond funded the legal reserve requirement of \$552,218. The outstanding balance at June 30, 2014 was \$7,380,000.

The Certificates utilize an asset transfer structure whereby, concurrent with the above debt issuance, the City entered into a lease agreement with the Rancho Cañada Financing Authority with respect to Concourse Park, Pittsford Park, Rimgate Park and Lake Forest Golf and Practice Center (collectively, the "Leased Property"). The City will sublease the Leased Property to the Authority, and the Authority will sublease the Leased Property to the City. The City is obligated to pay lease payments under the lease agreement from any legally available monies, including transfers from the Redevelopment Agency. The lease payments are calculated to be an amount sufficient to pay all principal and interest represented by the Certificates when due.

Annual debt service requirements to maturity for these Certificates of Participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 255,000	\$ 292,388	\$ 547,388
2016	260,000	284,018	544,018
2017	270,000	275,138	545,138
2018	280,000	265,647	545,647
2019	290,000	255,455	545,455
2020-2024	1,620,000	1,098,098	2,718,098
2025-2029	1,980,000	730,718	2,710,718
2030-2034	2,425,000	266,156	2,691,156
	<u>\$ 7,380,000</u>	<u>\$ 3,467,618</u>	<u>\$ 10,847,618</u>

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

15. SUCESSOR AGENCY DISCLOSURES (CONTINUED):

Long-Term Liabilities (Continued)

2004 Certificates of Participation (Continued)

The Certificates of Participation are subject to federal arbitrage regulations. The City calculated no arbitrage rebate due as of March 2009. No additional arbitrage reports were required since the proceeds were fully expended.

16. RESTATEMENT OF NET POSITION AND FUND BALANCES:

Net Position - July 1, 2013

The Governmental Activities net position for the government-wide financial statements as of July 1, 2013 was restated as follows:

Net position as previously reported as of June 30, 2013	\$ 312,901,623
Reduction in net position to remove unamortized bond issuance costs for the implementation of GASB Statement 65	(65,673)
Increase in net position to recognize revenue previously reported as unearned due to change in classification of the fund from the General Fund to an Other Governmental Special Revenue Fund	<u>110,336</u>
Net position as restated July 1, 2013	<u>\$ 312,946,286</u>

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

16. RESTATEMENT OF NET POSITION AND FUND BALANCES (CONTINUED):

Fund Balance - July 1, 2013

The fund balance for the governmental fund financial statements as of July 1, 2013 was restated as follows:

		Other Governmental Funds			
	General Fund	Housing Authority Special Revenue Fund	Beverage Recycling Special Revenue Fund	Community Development Block Grant Special Revenue Fund	Capital Improvement Projects Capital Projects Fund
Fund balance as previously reported, June 30, 2013	\$ 43,188,890	\$ 425,934	\$ -	\$ 34,941	\$ -
Increase in fund balance to remove previously recorded deferred revenue due to the implementation of GASB No. 65	-	391,387	-	1,239,971	-
Increase in fund balance to recognize revenue previously reported as unearned due to change in classification of fund from the General Fund to an Other Governmental Special Revenue Fund	110,336	-	-	-	-
Reclassification of fund balance from the General Fund to Other Governmental Funds	<u>(5,938,673)</u>	<u>-</u>	<u>110,336</u>	<u>-</u>	<u>5,828,337</u>
Fund balance as restated, July 1, 2013	<u>\$ 37,360,553</u>	<u>\$ 817,321</u>	<u>\$ 110,336</u>	<u>\$ 1,274,912</u>	<u>\$ 5,828,337</u>

17. SUBSEQUENT EVENTS:

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through December 22, 2014, the date the financial statements were available to be issued.

See independent auditors' report.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF LAKE FOREST

OTHER POST-EMPLOYMENT BENEFITS PLAN

For the year ended June 30, 2014

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Payroll [(b)-(a)]/(c)
11/01/11	\$ -	\$ 442,859	\$ 442,859	0.00%	\$ 5,115,936	8.66%
06/30/13	\$ 450,239	\$ 499,136	\$ 48,897	90.20%	\$ 5,201,037	0.94%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2011	\$ 68,041	7.11%
2012	68,041	300.30%
2013	50,024	494.29%
2014	50,024	0.00%

See independent auditors' report.

CITY OF LAKE FOREST
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 31,412,500	\$ 33,198,000	\$ 33,831,580	\$ 633,580
Licenses and permits	1,305,000	3,115,000	2,640,893	(474,107)
Intergovernmental	19,000	19,000	50,533	31,533
Charges for services	1,446,700	1,721,700	2,501,439	779,739
Fines and forfeitures	445,000	571,000	585,640	14,640
Investment income	150,000	150,000	179,052	29,052
Other	1,103,900	1,215,900	811,245	(404,655)
TOTAL REVENUES	<u>35,882,100</u>	<u>39,990,600</u>	<u>40,600,382</u>	<u>609,782</u>
EXPENDITURES:				
Current:				
General government:				
City council	145,300	145,300	122,974	22,326
City manager	634,400	714,700	672,325	42,375
City attorney	1,296,900	1,296,900	1,061,204	235,696
City clerk	455,400	453,000	431,190	23,791
Finance	923,300	979,800	956,009	21,810
Public safety:				
Police services	13,327,900	13,382,000	12,986,640	395,360
Public works	7,359,500	7,914,400	7,162,378	752,022
Development services	2,174,000	3,569,700	3,365,898	203,802
Management services	3,745,400	4,107,000	3,766,966	340,034
Community services	2,917,900	3,214,075	2,933,109	280,966
Redevelopment/economic development	1,883,100	1,962,600	1,080,653	881,947
Capital outlay	138,000	183,200	117,934	65,266
TOTAL EXPENDITURES	<u>35,001,100</u>	<u>37,922,675</u>	<u>34,657,280</u>	<u>3,265,395</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	881,000	2,067,925	5,943,102	3,875,177
OTHER FINANCING USES:				
Transfers out	<u>(521,400)</u>	<u>(521,400)</u>	<u>(521,400)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	359,600	1,546,525	5,421,702	3,875,177
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	<u>37,360,553</u>	<u>37,360,553</u>	<u>37,360,553</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 37,720,153</u>	<u>\$ 38,907,078</u>	<u>\$ 42,782,255</u>	<u>\$ 3,875,177</u>

See independent auditors' report.

CITY OF LAKE FOREST

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

1. BUDGETARY POLICY AND CONTROL:

Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are used as a management control device. Annual budgets are adopted for the General, Special Revenue, Debt Service, Capital Projects and Internal Service Funds. The following Other Governmental Funds: (1) Asset Forfeiture Special Revenue Fund and (2) Affordable Housing Capital Projects Fund had no budgeted revenues or appropriations; therefore, budgetary comparison schedules for these funds are not included in the supplementary information.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the operating budget is within a department. The City Manager is authorized to transfer appropriations within and between departments/projects provided there is no net increase in total appropriations at the department level.

Budgeted amounts presented are as originally adopted and as further amended by the City Council.

Continuing Appropriations

The unexpended and unencumbered appropriations, which are available and recommended for continuation to the following fiscal year, are approved by the City Council for carryover. Encumbered appropriations lapse at year-end but are recommended to the City Council for carryover.

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SUPPLEMENTARY INFORMATION

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CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

OPPORTUNITIES STUDY AREA CAPITAL PROJECTS FUND - MAJOR FUND

For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Developer contributions	\$ 27,650,000	\$ 29,346,691	\$ 1,696,691
Other	-	39,083	39,083
TOTAL REVENUES	27,650,000	29,385,774	1,735,774
EXPENDITURES:			
Capital outlay	43,888,735	30,224,740	13,663,995
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(16,238,735)	(838,966)	15,399,769
OTHER FINANCING SOURCES:			
Transfers in	13,400,000	10,000,000	(3,400,000)
NET CHANGE IN FUND BALANCE	(2,838,735)	9,161,034	11,999,769
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	(1,900,136)	(1,900,136)	-
FUND BALANCE - END OF YEAR	\$ (4,738,871)	\$ 7,260,898	\$ 11,999,769

See independent auditors' report.

CITY OF LAKE FOREST
OTHER GOVERNMENTAL FUNDS

June 30, 2014

SPECIAL REVENUE FUNDS

City Facilities Maintenance Fund - This fund is used to account for developer impact fees to maintain City facilities.

Measure M Fund - The fund is used to account for the City's share of the sales tax increase authorized by Orange County's Measure "M". The monies are legally restricted for the acquisition, construction and improvement of public streets and for the Senior Mobility Program.

Air Quality Improvement Fund - This fund is used to account for the City's share of vehicle registration fees collected under AB2766 that the State of California has allocated to address air quality concerns in Southern California. These monies are to be used to fund programs to reduce air pollution from mobile sources such as cars, trucks, and buses.

Supplemental Law Enforcement Grant Fund - This fund is used to account for revenue and expenditures of the State funded Supplemental Law Enforcement Program.

Asset Forfeiture Fund - This fund is used to account for revenue and expenditures associated with asset forfeitures.

Gas Tax Fund - This fund is used to account for revenue and expenditures of money appropriated under Streets and Highways Code Sections 2105, 2106, 2107, 2107.5 and Proposition 1B of the State of California. These funds are earmarked for maintenance, rehabilitation, or improvement of public streets.

Housing Authority Fund - This fund is used to account for revenue and expenditures of a portion of the affordable housing administration in the City.

AB 939 Fund - This fund is used to account for revenue and expenditures from the City's franchise hauler for the purpose of general recycling activities under AB 939.

Beverage Recycling Fund - This fund is used to account for revenue and expenditures related to grant funding received from the California State Department of Conservation for the purpose of implementing and supporting beverage recycling programs within the City.

Community Development Block Grant Fund - This fund is used to account for receipts and expenditures made under the federal Community Development Block Grant program.

CITY OF LAKE FOREST
OTHER GOVERNMENTAL FUNDS
(CONTINUED)

June 30, 2014

DEBT SERVICE FUND

Financing Authority Fund - This fund is used to account for debt service activity for the 2011 Lease Financing Certificates of Participation.

CAPITAL PROJECTS FUNDS

Capital Improvement Projects Fund - This fund is used to accumulate financial resources for the purpose of providing funds for capital projects and economic development projects.

City Facilities Fund - This fund is used to account for developer impact fees to construct improvements City-wide.

Lake Forest Transportation Mitigation Fund - This fund is used to account for developer impact fees to improve specific intersections City-wide.

Park Development Fund - This fund is used to account for developer impact fees and other funds received by the City for the specific purpose of constructing new parks or renovating existing parks.

Affordable Housing Fund - This fund is used to account for developer impact fees for affordable housing purposes and related capital projects.

CITY OF LAKE FOREST
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

June 30, 2014

	Special Revenue Funds			
	City Facilities Maintenance	Measure M	Air Quality Improvement	Supplemental Law Enforcement Grant
ASSETS				
Cash and investments	\$ 752,887	\$ 699,681	\$ 912,399	\$ 3,592
Receivables:				
Accounts	-	-	-	-
Interest	-	-	-	-
Grants	-	-	-	4,793
Loans	-	-	-	-
Due from other governments	-	416,463	25,290	-
Land held for resale	-	-	-	-
TOTAL ASSETS	\$ 752,887	\$ 1,116,144	\$ 937,689	\$ 8,385
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ 8,221	\$ 17,134	\$ -
Retentions payable	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	752,887	-	-	-
TOTAL LIABILITIES	752,887	8,221	17,134	-
FUND BALANCES:				
Restricted	-	1,107,923	920,555	8,385
Assigned	-	-	-	-
TOTAL FUND BALANCES	-	1,107,923	920,555	8,385
TOTAL LIABILITIES AND FUND BALANCES	\$ 752,887	\$ 1,116,144	\$ 937,689	\$ 8,385

See independent auditors' report.

Special Revenue Funds (Continued)

Asset Forfeiture	Gas Tax	Housing Authority	AB 939	Beverage Recycling	Community Development Block Grant
\$ 98,094	\$ 1,779,487	\$ 218,822	\$ 16,908	\$ 110,336	\$ -
-	-	150	-	-	-
-	-	-	-	-	31
-	-	-	-	20,748	121,413
-	-	391,387	-	-	1,307,964
-	-	-	-	-	-
-	-	326,000	-	-	-
<u>\$ 98,094</u>	<u>\$ 1,779,487</u>	<u>\$ 936,359</u>	<u>\$ 16,908</u>	<u>\$ 131,084</u>	<u>\$ 1,429,408</u>
\$ -	\$ 446,206	\$ 2,234	\$ 16,908	\$ -	\$ 30,438
-	-	-	-	-	-
-	-	-	-	-	60,091
-	-	-	-	-	-
<u>-</u>	<u>446,206</u>	<u>2,234</u>	<u>16,908</u>	<u>-</u>	<u>90,529</u>
98,094	1,333,281	934,125	-	131,084	1,338,879
-	-	-	-	-	-
<u>98,094</u>	<u>1,333,281</u>	<u>934,125</u>	<u>-</u>	<u>131,084</u>	<u>1,338,879</u>
<u>\$ 98,094</u>	<u>\$ 1,779,487</u>	<u>\$ 936,359</u>	<u>\$ 16,908</u>	<u>\$ 131,084</u>	<u>\$ 1,429,408</u>

(Continued)

CITY OF LAKE FOREST
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
(CONTINUED)

June 30, 2014

	Debt Service Fund	Capital Projects Funds		
	Financing Authority	Capital Improvement Projects	City Facilities	Lake Forest Transportation Mitigation
ASSETS				
Cash and investments	\$ -	\$ 3,944,906	\$ 387,039	\$ 4,503,194
Receivables:				
Accounts	-	185	-	-
Interest	-	-	-	-
Grants	-	-	-	-
Loans	-	-	-	-
Due from other governments	-	-	-	-
Land held for resale	-	-	-	-
TOTAL ASSETS	\$ -	\$ 3,945,091	\$ 387,039	\$ 4,503,194
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ 9,317	\$ -	\$ 8,296
Retentions payable	-	121,632	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
TOTAL LIABILITIES	-	130,949	-	8,296
FUND BALANCES:				
Restricted	-	-	387,039	4,494,898
Assigned	-	3,814,142	-	-
TOTAL FUND BALANCES	-	3,814,142	387,039	4,494,898
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ 3,945,091	\$ 387,039	\$ 4,503,194

See independent auditors' report.

<u>Capital Projects Funds (Continued)</u>		
<u>Park Development</u>	<u>Affordable Housing</u>	<u>Total Other Governmental Funds</u>
\$ 1,788,760	\$ 1,269,627	\$ 16,485,732
-	-	335
-	-	31
-	-	146,954
-	-	1,699,351
-	-	441,753
-	-	326,000
<u>\$ 1,788,760</u>	<u>\$ 1,269,627</u>	<u>\$ 19,100,156</u>
\$ -	\$ -	\$ 538,754
-	-	121,632
-	-	60,091
-	-	752,887
<u>-</u>	<u>-</u>	<u>1,473,364</u>
1,788,760	1,269,627	13,812,650
<u>-</u>	<u>-</u>	<u>3,814,142</u>
<u>1,788,760</u>	<u>1,269,627</u>	<u>17,626,792</u>
<u>\$ 1,788,760</u>	<u>\$ 1,269,627</u>	<u>\$ 19,100,156</u>

CITY OF LAKE FOREST

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS

For the year ended June 30, 2014

	Special Revenue Funds			
	City Facilities Maintenance	Measure M	Air Quality Improvement	Supplemental Law Enforcement Grant
REVENUES:				
Intergovernmental	\$ -	\$ 1,211,096	\$ 97,397	\$ 133,385
Charges for services	-	1,808	-	-
Developer contributions	-	-	-	-
Investment income	-	1,539	1,863	-
Other	-	48,000	-	-
TOTAL REVENUES	-	1,262,443	99,260	133,385
EXPENDITURES:				
Current:				
Public safety	-	-	-	125,000
Public works	-	-	115	-
Community services	-	47,017	-	-
Redevelopment/economic development	-	-	-	-
Capital outlay	-	1,408,230	18,449	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
TOTAL EXPENDITURES	-	1,455,247	18,564	125,000
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(192,804)	80,696	8,385
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
NET CHANGE IN FUND BALANCES	-	(192,804)	80,696	8,385
FUND BALANCES - BEGINNING OF YEAR, AS RESTATED	-	1,300,727	839,859	-
FUND BALANCES - END OF YEAR	\$ -	\$ 1,107,923	\$ 920,555	\$ 8,385

See independent auditors' report.

Special Revenue Funds (Continued)

Asset Forfeiture	Gas Tax	Housing Authority	AB 939	Beverage Recycling	Community Development Block Grant
\$ 12,433	\$ 2,378,717	\$ -	\$ -	\$ 20,748	\$ 384,006
-	-	-	-	-	-
-	-	-	-	-	-
190	2,770	319	-	-	444
-	32,773	149,762	40,000	-	-
<u>12,623</u>	<u>2,414,260</u>	<u>150,081</u>	<u>40,000</u>	<u>20,748</u>	<u>384,450</u>
-	-	-	-	-	-
-	1,699,620	-	40,000	-	-
-	-	-	-	-	-
-	-	3,477	-	-	173,687
-	9,400	29,800	-	-	146,796
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>1,709,020</u>	<u>33,277</u>	<u>40,000</u>	<u>-</u>	<u>320,483</u>
<u>12,623</u>	<u>705,240</u>	<u>116,804</u>	<u>-</u>	<u>20,748</u>	<u>63,967</u>
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
12,623	705,240	116,804	-	20,748	63,967
85,471	628,041	817,321	-	110,336	1,274,912
<u>\$ 98,094</u>	<u>\$ 1,333,281</u>	<u>\$ 934,125</u>	<u>\$ -</u>	<u>\$ 131,084</u>	<u>\$ 1,338,879</u>

(Continued)

CITY OF LAKE FOREST

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS
(CONTINUED)

For the year ended June 30, 2014

	Debt Service Fund	Capital Projects Funds		
	Financing Authority	Capital Improvement Projects	City Facilities	Lake Forest Transportation Mitigation
REVENUES:				
Intergovernmental	\$ -	\$ 1,392,293	\$ -	\$ -
Charges for services	-	-	-	-
Developer contributions	-	120,000	387,039	2,207,060
Investment income	-	9,439	-	1,863
Other	-	429,866	-	-
TOTAL REVENUES	-	1,951,598	387,039	2,208,923
EXPENDITURES:				
Current:				
Public safety	-	-	-	-
Public works	-	-	-	-
Community services	-	-	-	-
Redevelopment/economic development	-	-	-	-
Capital outlay	-	3,193,545	-	26,796
Debt service:				
Principal	995,000	-	-	-
Interest and fiscal charges	419,118	-	-	-
TOTAL EXPENDITURES	1,414,118	3,193,545	-	26,796
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,414,118)	(1,241,947)	387,039	2,182,127
OTHER FINANCING SOURCES (USES):				
Transfers in	1,293,648	521,400	-	-
Transfers out	(10,000,000)	(1,293,648)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(8,706,352)	(772,248)	-	-
NET CHANGE IN FUND BALANCES	(10,120,470)	(2,014,195)	387,039	2,182,127
FUND BALANCES - BEGINNING OF YEAR, AS RESTATED	10,120,470	5,828,337	-	2,312,771
FUND BALANCES - END OF YEAR	\$ -	\$ 3,814,142	\$ 387,039	\$ 4,494,898

See independent auditors' report.

<u>Capital Projects Funds (Continued)</u>		
<u>Park Development</u>	<u>Affordable Housing</u>	<u>Total Other Governmental Funds</u>
\$ -	\$ -	\$ 5,630,075
-	-	1,808
360,990	71,042	3,146,131
3,437	2,605	24,469
-	-	700,401
<u>364,427</u>	<u>73,647</u>	<u>9,502,884</u>
-	-	125,000
-	-	1,739,735
-	-	47,017
-	-	177,164
-	-	4,833,016
-	-	995,000
-	-	419,118
<u>-</u>	<u>-</u>	<u>8,336,050</u>
<u>364,427</u>	<u>73,647</u>	<u>1,166,834</u>
-	-	1,815,048
<u>-</u>	<u>-</u>	<u>(11,293,648)</u>
<u>-</u>	<u>-</u>	<u>(9,478,600)</u>
364,427	73,647	(8,311,766)
<u>1,424,333</u>	<u>1,195,980</u>	<u>25,938,558</u>
<u>\$ 1,788,760</u>	<u>\$ 1,269,627</u>	<u>\$ 17,626,792</u>

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

CITY FACILITIES MAINTENANCE SPECIAL REVENUE FUND

For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Developer contributions	\$ 645,300	\$ -	\$ (645,300)
EXPENDITURES	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	645,300	-	(645,300)
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE - END OF YEAR	<u>\$ 645,300</u>	<u>\$ -</u>	<u>\$ (645,300)</u>

See independent auditors' report.

CITY OF LAKE FOREST
BUDGETARY COMPARISON SCHEDULE
MEASURE M SPECIAL REVENUE FUND

For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 1,259,300	\$ 1,211,096	\$ (48,204)
Charges for services	-	1,808	1,808
Investment income	500	1,539	1,039
Other	-	48,000	48,000
	<u>1,259,800</u>	<u>1,262,443</u>	<u>2,643</u>
TOTAL REVENUES			
	<u>1,259,800</u>	<u>1,262,443</u>	<u>2,643</u>
EXPENDITURES:			
Current:			
Community services	59,300	47,017	12,283
Capital outlay	2,050,713	1,408,230	642,483
	<u>2,110,013</u>	<u>1,455,247</u>	<u>654,766</u>
TOTAL EXPENDITURES			
	<u>2,110,013</u>	<u>1,455,247</u>	<u>654,766</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(850,213)	(192,804)	657,409
FUND BALANCE - BEGINNING OF YEAR	<u>1,300,727</u>	<u>1,300,727</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 450,514</u></u>	<u><u>\$ 1,107,923</u></u>	<u><u>\$ 657,409</u></u>

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 96,500	\$ 97,397	\$ 897
Investment income	500	1,863	1,363
TOTAL REVENUES	97,000	99,260	2,260
EXPENDITURES:			
Current:			
Public works	50,000	115	49,885
Capital outlay	489,900	18,449	471,451
TOTAL EXPENDITURES	539,900	18,564	521,336
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(442,900)	80,696	523,596
FUND BALANCE - BEGINNING OF YEAR	839,859	839,859	-
FUND BALANCE - END OF YEAR	\$ 396,959	\$ 920,555	\$ 523,596

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

SUPPLEMENTAL LAW ENFORCEMENT GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 125,000	\$ 133,385	\$ 8,385
EXPENDITURES:			
Current:			
Public safety	125,000	125,000	-
EXCESS OF REVENUES OVER EXPENDITURES	-	8,385	8,385
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE - END OF YEAR	\$ -	\$ 8,385	\$ 8,385

See independent auditors' report.

CITY OF LAKE FOREST
BUDGETARY COMPARISON SCHEDULE
GAS TAX SPECIAL REVENUE FUND
For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 2,285,500	\$ 2,378,717	\$ 93,217
Investment income	500	2,770	2,270
Other	-	32,773	32,773
	<u>2,286,000</u>	<u>2,414,260</u>	<u>128,260</u>
TOTAL REVENUES			
EXPENDITURES:			
Current:			
Public works	2,013,600	1,699,620	313,980
Capital outlay	160,000	9,400	150,600
	<u>2,173,600</u>	<u>1,709,020</u>	<u>464,580</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER EXPENDITURES	112,400	705,240	592,840
FUND BALANCE - BEGINNING OF YEAR	<u>628,041</u>	<u>628,041</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 740,441</u>	<u>\$ 1,333,281</u>	<u>\$ 592,840</u>

See independent auditors' report.

CITY OF LAKE FOREST
BUDGETARY COMPARISON SCHEDULE
HOUSING AUTHORITY SPECIAL REVENUE FUND
For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Investment income	\$ -	\$ 319	\$ 319
Other	75,600	149,762	74,162
	<u>75,600</u>	<u>150,081</u>	<u>74,481</u>
TOTAL REVENUES	<u>75,600</u>	<u>150,081</u>	<u>74,481</u>
EXPENDITURES:			
Current:			
Redevelopment/economic development	63,900	3,477	60,423
Capital outlay	65,100	29,800	35,300
	<u>129,000</u>	<u>33,277</u>	<u>95,723</u>
TOTAL EXPENDITURES	<u>129,000</u>	<u>33,277</u>	<u>95,723</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(53,400)	116,804	170,204
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	<u>817,321</u>	<u>817,321</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 763,921</u></u>	<u><u>\$ 934,125</u></u>	<u><u>\$ 170,204</u></u>

See independent auditors' report.

CITY OF LAKE FOREST
BUDGETARY COMPARISON SCHEDULE
AB 939 SPECIAL REVENUE FUND
For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Other	\$ -	\$ 40,000	\$ 40,000
EXPENDITURES:			
Current:			
Public works	40,000	40,000	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(40,000)	-	40,000
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE - END OF YEAR	<u>\$ (40,000)</u>	<u>\$ -</u>	<u>\$ 40,000</u>

See independent auditors' report.

CITY OF LAKE FOREST
BUDGETARY COMPARISON SCHEDULE
BEVERAGE RECYCLING SPECIAL REVENUE FUND
For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ -	\$ 20,748	\$ 20,748
EXPENDITURES:			
Current:			
Public works	<u>21,500</u>	<u>-</u>	<u>21,500</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(21,500)	20,748	42,248
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	<u>110,336</u>	<u>110,336</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 88,836</u></u>	<u><u>\$ 131,084</u></u>	<u><u>\$ 42,248</u></u>

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

COMMUNITY DEVELOPMENT BLOCK GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 501,100	\$ 384,006	\$ (117,094)
Investment income	500	444	(56)
Other	35,000	-	(35,000)
TOTAL REVENUES	536,600	384,450	(152,150)
EXPENDITURES:			
Current:			
Redevelopment/economic development	338,400	173,687	164,713
Capital outlay	354,930	146,796	208,134
TOTAL EXPENDITURES	693,330	320,483	372,847
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(156,730)	63,967	220,697
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	1,274,912	1,274,912	-
FUND BALANCE - END OF YEAR	\$ 1,118,182	\$ 1,338,879	\$ 220,697

See independent auditors' report.

CITY OF LAKE FOREST
BUDGETARY COMPARISON SCHEDULE
FINANCING AUTHORITY DEBT SERVICE FUND
For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES	\$ -	\$ -	\$ -
EXPENDITURES:			
Debt service:			
Principal	995,000	995,000	-
Interest and fiscal charges	419,200	419,118	82
TOTAL EXPENDITURES	1,414,200	1,414,118	82
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,414,200)	(1,414,118)	82
OTHER FINANCING SOURCES (USES):			
Issuance of long-term debt	13,400,000	-	(13,400,000)
Transfers in	1,315,800	1,293,648	(22,152)
Transfers out	(13,400,000)	(10,000,000)	3,400,000
TOTAL OTHER FINANCING SOURCES (USES)	1,315,800	(8,706,352)	(10,022,152)
NET CHANGE IN FUND BALANCE	(98,400)	(10,120,470)	(10,022,070)
FUND BALANCE - BEGINNING OF YEAR	10,120,470	10,120,470	-
FUND BALANCE - END OF YEAR	\$ 10,022,070	\$ -	\$ (10,022,070)

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

CAPITAL IMPROVEMENT PROJECTS CAPITAL PROJECTS FUND

For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 2,027,700	\$ 1,392,293	\$ (635,407)
Developer contributions	120,000	120,000	-
Investment income	-	9,439	9,439
Other	63,000	429,866	366,866
TOTAL REVENUES	2,210,700	1,951,598	(259,102)
EXPENDITURES:			
Capital outlay	5,059,798	3,193,545	1,866,253
EXCESS OF REVENUES UNDER EXPENDITURES	(2,849,098)	(1,241,947)	1,607,151
OTHER FINANCING SOURCES (USES):			
Transfers in	521,400	521,400	-
Transfers out	(1,315,800)	(1,293,648)	22,152
TOTAL OTHER FINANCING SOURCES (USES)	(794,400)	(772,248)	22,152
NET CHANGE IN FUND BALANCE	(3,643,498)	(2,014,195)	1,629,303
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	5,828,337	5,828,337	-
FUND BALANCE - END OF YEAR	\$ 2,184,839	\$ 3,814,142	\$ 1,629,303

See independent auditors' report.

CITY OF LAKE FOREST
BUDGETARY COMPARISON SCHEDULE
CITY FACILITIES CAPITAL PROJECTS FUND

For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Developer contributions	\$ 164,000	\$ 387,039	\$ 223,039
EXPENDITURES	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	164,000	387,039	223,039
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE - END OF YEAR	\$ 164,000	\$ 387,039	\$ 223,039

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

LAKE FOREST TRANSPORTATION MITIGATION CAPITAL PROJECTS FUND

For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Developer contributions	\$ 2,047,900	\$ 2,207,060	\$ 159,160
Investment income	-	1,863	1,863
TOTAL REVENUES	2,047,900	2,208,923	161,023
EXPENDITURES:			
Capital outlay	30,000	26,796	3,204
EXCESS OF REVENUES OVER EXPENDITURES	2,017,900	2,182,127	164,227
FUND BALANCE - BEGINNING OF YEAR	2,312,771	2,312,771	-
FUND BALANCE - END OF YEAR	\$ 4,330,671	\$ 4,494,898	\$ 164,227

See independent auditors' report.

CITY OF LAKE FOREST
BUDGETARY COMPARISON SCHEDULE
PARK DEVELOPMENT CAPITAL PROJECTS FUND
For the year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Developer contributions	\$ 315,800	\$ 360,990	\$ 45,190
Investment income	<u>-</u>	<u>3,437</u>	<u>3,437</u>
TOTAL REVENUES	315,800	364,427	48,627
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	315,800	364,427	48,627
FUND BALANCE - BEGINNING OF YEAR	<u>1,424,333</u>	<u>1,424,333</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,740,133</u></u>	<u><u>\$ 1,788,760</u></u>	<u><u>\$ 48,627</u></u>

See independent auditors' report.

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CITY OF LAKE FOREST

AGENCY FUNDS

June 30, 2014

Road Construction Programs Fund - This fund is used to account for monies collected on behalf of the County of Orange and held in an agency capacity by the City.

Strong Motion Instrumentation Program Fund - This fund is used to account for monies collected in conjunction with building permits for the Strong Motion Instrumentation Program. These fees are collected pursuant to State law and are remitted to the State of California quarterly.

Building Standards Administration Fund - This fund is used to account for monies collected in conjunction with building permits for development and education efforts associated with green building standards. Fees are collected pursuant to State law and are remitted to the California Building Standards Commission quarterly.

CITY OF LAKE FOREST

COMBINING STATEMENT OF ASSETS AND LIABILITIES
ALL AGENCY FUNDS

June 30, 2014

	Road Construction Programs	Strong Motion Instrumentation Program	Building Standards Administration	Totals
ASSETS				
Cash and investments	\$ 430,274	\$ 28,226	\$ 6,616	\$ 465,116
TOTAL ASSETS	<u>\$ 430,274</u>	<u>\$ 28,226</u>	<u>\$ 6,616</u>	<u>\$ 465,116</u>
LIABILITIES				
Deposits payable	\$ 430,274	28,226	\$ 6,616	\$ 465,116
TOTAL LIABILITIES	<u>\$ 430,274</u>	<u>\$ 28,226</u>	<u>\$ 6,616</u>	<u>\$ 465,116</u>

See independent auditors' report.

CITY OF LAKE FOREST

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS

For the year ended June 30, 2014

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
ROAD CONSTRUCTION PROGRAMS				
ASSETS:				
Cash and investments	\$ 67,217	\$ 1,909,480	\$ 1,546,423	\$ 430,274
TOTAL ASSETS	<u>\$ 67,217</u>	<u>\$ 1,909,480</u>	<u>\$ 1,546,423</u>	<u>\$ 430,274</u>
LIABILITIES:				
Deposits payable	\$ 67,217	\$ 1,909,480	\$ 1,546,423	\$ 430,274
TOTAL LIABILITIES	<u>\$ 67,217</u>	<u>\$ 1,909,480</u>	<u>\$ 1,546,423</u>	<u>\$ 430,274</u>
STRONG MOTION INSTRUMENTATION PROGRAM				
ASSETS:				
Cash and investments	\$ 15,396	\$ 28,679	\$ 15,849	\$ 28,226
TOTAL ASSETS	<u>\$ 15,396</u>	<u>\$ 28,679</u>	<u>\$ 15,849</u>	<u>\$ 28,226</u>
LIABILITIES:				
Deposits payable	\$ 15,396	\$ 28,679	\$ 15,849	\$ 28,226
TOTAL LIABILITIES	<u>\$ 15,396</u>	<u>\$ 28,679</u>	<u>\$ 15,849</u>	<u>\$ 28,226</u>
BUILDING STANDARDS ADMINISTRATION				
ASSETS:				
Cash and investments	\$ 1,329	\$ 10,642	\$ 5,355	\$ 6,616
TOTAL ASSETS	<u>\$ 1,329</u>	<u>\$ 10,642</u>	<u>\$ 5,355</u>	<u>\$ 6,616</u>
LIABILITIES:				
Deposits payable	\$ 1,329	\$ 10,642	\$ 5,355	\$ 6,616
TOTAL LIABILITIES	<u>\$ 1,329</u>	<u>\$ 10,642</u>	<u>\$ 5,355</u>	<u>\$ 6,616</u>

See independent auditors' report.

(Continued)

CITY OF LAKE FOREST

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
(CONTINUED)

For the year ended June 30, 2014

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
TOTAL - ALL AGENCY FUNDS				
ASSETS:				
Cash and investments	\$ 83,942	\$ 1,948,801	\$ 1,567,627	\$ 465,116
TOTAL ASSETS	<u>\$ 83,942</u>	<u>\$ 1,948,801</u>	<u>\$ 1,567,627</u>	<u>\$ 465,116</u>
LIABILITIES:				
Deposits payable	\$ 83,942	\$ 1,948,801	\$ 1,567,627	\$ 465,116
TOTAL LIABILITIES	<u>\$ 83,942</u>	<u>\$ 1,948,801</u>	<u>\$ 1,567,627</u>	<u>\$ 465,116</u>

See independent auditors' report.

DESCRIPTION OF STATISTICAL SECTION CONTENTS

June 30, 2014

This section of the City of Lake Forest's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the City's overall financial health. This information has not been audited by the independent auditor.

<u>Contents</u>	<u>Pages</u>
Financial Trends	110 - 116
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity	119 - 123
These schedules contain information to help the reader assess the City's most significant local revenue source, property tax.	
Debt Capacity	124 - 127
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt.	
Demographic and Economic Information	128 - 129
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	130 - 132
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	

Sources:

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB 34 in the year ended June 30, 2001; schedules presenting government-wide information include information beginning in that year.

CITY OF LAKE FOREST
NET POSITION BY COMPONENT

Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2014	2013	2012	2011
Governmental activities:				
Net investment in capital assets	\$ 279,126,412	\$ 261,724,142	\$ 230,847,108	\$ 196,180,216
Restricted	21,073,548	9,879,415	7,250,841	10,548,032
Unrestricted	47,136,786	41,298,066	71,885,182	81,447,176
Total governmental activities net position	<u>\$ 347,336,746</u>	<u>\$ 312,901,623</u>	<u>\$ 309,983,131</u>	<u>\$ 288,175,424</u>
Primary government:				
Net investment in capital assets	\$ 279,126,412	\$ 261,724,142	\$ 230,847,108	\$ 196,180,216
Restricted	21,073,548	9,879,415	7,250,841	10,548,032
Unrestricted	47,136,786	41,298,066	71,885,182	81,447,176
Total primary government net position	<u>\$ 347,336,746</u>	<u>\$ 312,901,623</u>	<u>\$ 309,983,131</u>	<u>\$ 288,175,424</u>

Fiscal Year					
2010	2009	2008	2007	2006	2005
\$ 170,707,057	\$ 170,898,743	\$ 151,991,756	\$ 152,736,236	\$ 153,261,503	\$ 147,415,149
10,901,503	6,965,580	7,917,936	6,756,713	6,145,459	5,478,503
95,586,635	101,720,693	100,096,806	94,134,305	81,927,739	77,610,246
<u>\$ 277,195,195</u>	<u>\$ 279,585,016</u>	<u>\$ 260,006,498</u>	<u>\$ 253,627,254</u>	<u>\$ 241,334,701</u>	<u>\$ 230,503,898</u>
\$ 170,707,057	\$ 170,898,743	\$ 151,991,756	\$ 152,736,236	\$ 153,261,503	\$ 147,415,149
10,901,503	6,965,580	7,917,936	6,756,713	6,145,459	5,478,503
95,586,635	101,720,693	100,096,806	94,134,305	81,927,739	77,610,246
<u>\$ 277,195,195</u>	<u>\$ 279,585,016</u>	<u>\$ 260,006,498</u>	<u>\$ 253,627,254</u>	<u>\$ 241,334,701</u>	<u>\$ 230,503,898</u>

CITY OF LAKE FOREST

CHANGES IN NET POSITION

Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2014	2013	2012	2011
Expenses:				
Governmental activities:				
General government	\$ 3,401,844	\$ 3,631,087	\$ 4,431,490	\$ 4,377,337
Public safety	13,112,376	13,042,863	12,727,476	12,873,177
Public works	16,586,125	15,675,226	18,319,374	16,115,328
Development services	3,365,898	2,276,925	3,157,839	2,660,830
Management services	3,921,282	3,573,679	1,925,802	1,606,779
Community services	2,982,195	2,860,468	3,196,803	3,058,292
Redevelopment/economic development	1,257,816	1,129,619	2,470,827	2,958,997
Interest on long-term debt	415,851	437,281	789,553	332,045
Total governmental activities expenses	<u>45,043,387</u>	<u>42,627,148</u>	<u>47,019,164</u>	<u>43,982,785</u>
Program revenues:				
Governmental activities:				
Charges for services:				
General government	351	19,310	24,229	29,311
Public safety	585,640	403,329	455,602	560,819
Public works	972,382	2,440,566	1,343,146	936,195
Development services	3,809,208	1,730,035	1,712,059	1,388,941
Management services	36,251	-	-	-
Community services	325,946	1,129,883	679,038	272,446
Operating grants and contributions	4,355,113	4,003,150	4,082,601	4,830,388
Capital grants and contributions	34,320,520	1,669,232	23,696,197	12,396,561
Total governmental activities program revenues	<u>44,405,411</u>	<u>11,395,505</u>	<u>31,992,872</u>	<u>20,414,661</u>
Total primary government program revenues	<u>44,405,411</u>	<u>11,395,505</u>	<u>31,992,872</u>	<u>20,414,661</u>
Net revenues (expenses):				
Governmental activities	<u>(637,976)</u>	<u>(31,231,643)</u>	<u>(15,026,292)</u>	<u>(23,568,124)</u>
Total net revenues (expenses)	<u>(637,976)</u>	<u>(31,231,643)</u>	<u>(15,026,292)</u>	<u>(23,568,124)</u>
General revenues and other changes in net position:				
Governmental activities:				
Taxes:				
Property taxes	14,999,228	14,395,454	17,348,415	17,314,284
Sales taxes	13,333,699	13,063,075	13,046,917	12,630,144
Transient occupancy taxes	3,140,515	2,823,471	2,670,446	2,439,443
Other taxes	2,358,139	2,249,330	2,229,573	2,269,023
Motor vehicle in lieu, unrestricted	-	33,397	40,353	398,659
Investment income	324,078	215,956	350,785	479,877
Other general revenues	872,777	1,369,432	3,094,968	418,151
Total governmental activities	<u>35,028,436</u>	<u>34,150,115</u>	<u>38,781,457</u>	<u>35,949,581</u>
Total primary government	<u>35,028,436</u>	<u>34,150,115</u>	<u>38,781,457</u>	<u>35,949,581</u>
Changes in net position-Governmental activities				
before Extraordinary items	34,390,460	2,918,472	23,755,165	12,381,457
Gain on transfer to Successor Agency	-	-	2,229,560	-
Repayment of redevelopment agency transfers	-	-	(4,176,998)	-
Changes in net position-Governmental activities	<u>34,390,460</u>	<u>2,918,472</u>	<u>21,807,727</u>	<u>12,381,457</u>
Total primary government	<u>\$ 34,390,460</u>	<u>\$ 2,918,472</u>	<u>\$ 21,807,727</u>	<u>\$ 12,381,457</u>

Fiscal Year					
2010	2009	2008	2007	2006	2005
\$ 4,621,487	\$ 4,785,915	\$ 4,203,569	\$ 3,411,235	\$ 3,381,872	\$ 2,932,872
12,999,563	12,732,649	12,452,930	10,348,994	10,546,371	9,331,034
16,921,113	17,401,277	17,924,671	13,234,911	13,033,025	11,874,966
2,838,603	2,735,908	3,040,972	3,754,817	5,095,288	4,914,100
1,756,235	1,837,806	1,450,824	1,385,050	2,670,342	2,608,288
3,102,590	2,963,331	2,673,227	2,473,802	-	-
1,477,888	1,455,462	1,006,979	1,283,418	-	-
349,056	387,717	384,850	342,025	348,105	351,954
<u>44,066,535</u>	<u>44,300,065</u>	<u>43,138,022</u>	<u>36,234,252</u>	<u>35,075,003</u>	<u>32,013,214</u>
20,888	20,192	8,759	4,933	1,583	4,098
490,693	560,612	570,473	512,079	485,246	542,722
121,098	120,296	116,808	87,701	177,002	153,298
1,358,687	1,031,280	1,666,111	1,654,938	2,026,050	2,101,270
-	-	-	-	128,949	63,502
446,320	177,438	150,790	109,908	-	-
5,444,395	4,900,050	4,755,995	4,475,783	3,642,056	4,509,756
1,298,378	13,730	1,051,710	29,406	2,275,705	8,071,746
<u>9,180,459</u>	<u>6,823,598</u>	<u>8,320,646</u>	<u>6,874,748</u>	<u>8,736,591</u>	<u>15,446,392</u>
<u>9,180,459</u>	<u>6,823,598</u>	<u>8,320,646</u>	<u>6,874,748</u>	<u>8,736,591</u>	<u>15,446,392</u>
<u>(34,886,076)</u>	<u>(37,476,467)</u>	<u>(34,817,376)</u>	<u>(29,359,504)</u>	<u>(26,338,412)</u>	<u>(16,566,822)</u>
<u>(34,886,076)</u>	<u>(37,476,467)</u>	<u>(34,817,376)</u>	<u>(29,359,504)</u>	<u>(26,338,412)</u>	<u>(16,566,822)</u>
15,701,434	17,045,323	16,150,989	15,955,895	14,260,592	12,200,460
10,912,353	12,482,010	13,676,717	15,278,307	15,182,510	13,888,086
1,939,344	2,227,264	2,813,764	2,657,295	2,168,862	1,789,195
2,237,285	2,354,422	2,287,907	2,815,753	2,660,320	2,491,189
230,061	266,153	346,806	494,643	202,814	2,081,262
1,179,089	2,544,784	5,090,792	4,335,205	2,671,639	1,748,082
304,932	131,494	829,645	114,959	22,478	246,935
<u>32,504,498</u>	<u>37,051,450</u>	<u>41,196,620</u>	<u>41,652,057</u>	<u>37,169,215</u>	<u>34,445,209</u>
<u>32,504,498</u>	<u>37,051,450</u>	<u>41,196,620</u>	<u>41,652,057</u>	<u>37,169,215</u>	<u>34,445,209</u>
(2,381,578)	(425,017)	6,379,244	12,292,553	10,830,803	17,878,387
-	-	-	-	-	-
-	-	-	-	-	-
<u>(2,381,578)</u>	<u>(425,017)</u>	<u>6,379,244</u>	<u>12,292,553</u>	<u>10,830,803</u>	<u>17,878,387</u>
<u>\$ (2,381,578)</u>	<u>\$ (425,017)</u>	<u>\$ 6,379,244</u>	<u>\$ 12,292,553</u>	<u>\$ 10,830,803</u>	<u>\$ 17,878,387</u>

CITY OF LAKE FOREST
FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2014	2013	2012	2011
General fund:				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-
Total general fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
All other governmental funds:				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:				
Special revenue funds	-	-	-	-
Capital projects funds	-	-	-	-
Debt service funds	-	-	-	-
Total all other governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The presentation of fiscal years in this schedule is intended to be consistent with the implementation of GASB 34.

General fund:				
Nonspendable	\$ 163,350	\$ 267,395	\$ 198,110	\$ 166,614
Assigned	8,149,100	-	-	-
Unassigned	<u>34,469,805</u>	<u>42,921,495</u>	<u>40,982,087</u>	<u>55,302,963</u>
Total general fund	<u>\$ 42,782,255</u>	<u>\$ 43,188,890</u>	<u>\$ 41,180,197</u>	<u>\$ 55,469,577</u>
All other governmental funds:				
Nonspendable	\$ -	\$ 326,000	\$ 524,110	\$ 4,814
Restricted	21,073,548	18,042,527	15,772,134	9,720,988
Assigned	3,814,142	-	18,506,771	24,498,506
Unassigned	<u>-</u>	<u>(1,900,136)</u>	<u>40,967,573</u>	<u>(52,959)</u>
Total all other governmental funds	<u>\$ 24,887,690</u>	<u>\$ 16,468,391</u>	<u>\$ 75,770,588</u>	<u>\$ 34,171,349</u>

Note: GASB 54 was implemented in year ended June 30, 2011, prior year's have no comparable data.

Fiscal Year					
2010	2009	2008	2007	2006	2005
\$ 2,182,459	\$ 2,214,135	\$ 2,168,178	\$ 2,606,143	\$ 3,407,725	\$ 13,747,897
73,122,377	96,323,995	96,126,716	86,956,185	70,364,793	61,820,588
<u>\$ 75,304,836</u>	<u>\$ 98,538,130</u>	<u>\$ 98,294,894</u>	<u>\$ 89,562,328</u>	<u>\$ 73,772,518</u>	<u>\$ 75,568,485</u>
\$ 1,462,562	\$ 153,024	\$ 518,773	\$ 264,980	\$ 137,917	\$ 1,769,773
5,758,225	6,457,552	6,525,839	5,669,706	5,265,055	2,946,408
18,862,833	(719,171)	(50,336)	-	285,316	870,168
3,562,986	3,189,786	1,673,051	471,026	(116,880)	(1,138,143)
<u>\$ 29,646,606</u>	<u>\$ 9,081,191</u>	<u>\$ 8,667,327</u>	<u>\$ 6,405,712</u>	<u>\$ 5,571,408</u>	<u>\$ 4,448,206</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

CITY OF LAKE FOREST

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2014	2013	2012	2011
Revenues:				
Taxes	\$ 33,831,580	\$ 32,531,330	\$ 35,295,352	\$ 34,652,894
Licenses and permits	2,640,893	683,862	672,455	513,965
Intergovernmental	5,680,608	6,310,356	5,541,814	5,746,688
Charges for services	2,503,247	1,684,363	1,495,078	1,341,009
Developer contributions	32,492,822	2,920,636	1,499,118	750,000
Fines and forfeitures	585,640	403,329	455,603	557,083
Investment income	203,521	93,036	276,011	327,868
Other	1,550,729	1,906,036	3,480,543	666,952
Total revenues	<u>79,489,040</u>	<u>46,532,948</u>	<u>48,715,974</u>	<u>44,556,459</u>
Expenditures:				
Current:				
General government	3,243,702	3,620,347	4,371,323	4,080,480
Public safety	13,111,640	13,033,454	12,706,470	12,847,909
Public works	8,902,113	8,901,096	9,102,263	8,585,160
Development services	3,365,898	2,276,925	3,066,889	2,564,139
Management services	3,766,966	3,414,653	2,648,656	1,489,604
Community services	2,980,126	2,857,399	3,193,906	3,054,343
Redevelopment/economic development	1,257,817	1,285,719	1,065,433	1,517,755
SERAF payment to State	-	-	-	249,002
Capital outlay	35,175,690	26,824,641	25,189,687	24,672,951
Debt service:				
Principal retirement	995,000	-	235,000	225,000
Interest and fiscal charges	419,118	432,021	571,068	322,138
Pass-through payments	-	-	1,510,394	1,532,740
Total expenditures	<u>73,218,070</u>	<u>62,646,255</u>	<u>63,661,089</u>	<u>61,141,221</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,270,970</u>	<u>(16,113,307)</u>	<u>(14,945,115)</u>	<u>(16,584,762)</u>
Other financing sources (uses):				
Transfers in	11,815,048	4,587	901,704	24,389,199
Transfers out	(11,815,048)	(4,587)	(927,733)	(24,389,199)
Proceeds on exchange of land	-	-	-	-
Proceeds from long-term debt	-	-	10,965,000	-
Premium on debt issue	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>10,938,971</u>	<u>-</u>
Net change in fund balances	<u>\$ 6,270,970</u>	<u>\$ (16,113,307)</u>	<u>\$ (4,006,144)</u>	<u>\$ (16,584,762)</u>
Debt service as a percentage of non-capital expenditures	3.5%	1.2%	1.7%	1.4%

Fiscal Year					
2010	2009	2008	2007	2006	2005
\$ 33,602,398	\$ 35,595,068	\$ 37,844,313	\$ 32,814,833	\$ 30,150,758	\$ 27,437,895
513,001	483,310	505,260	643,158	616,067	754,057
6,554,126	4,798,406	7,922,679	12,392,899	10,227,492	11,098,720
1,437,291	863,867	1,441,696	1,209,977	1,713,575	1,568,477
-	-	-	-	-	-
487,085	556,560	565,983	505,457	476,953	535,357
1,226,620	2,654,323	5,317,333	4,669,655	2,871,568	1,886,535
370,634	221,942	553,073	319,464	210,956	1,766,610
44,191,155	45,173,476	54,150,337	52,555,443	46,267,369	45,047,651
4,411,123	4,588,334	3,927,372	3,331,061	3,315,329	2,871,880
12,953,360	12,709,337	12,418,604	10,315,572	10,515,607	9,297,707
8,760,691	8,628,070	8,456,483	7,156,432	6,662,359	6,676,955
2,762,563	2,677,232	3,009,043	2,662,422	4,030,326	3,865,405
1,606,047	1,746,164	1,415,093	1,347,789	2,646,902	2,592,550
3,084,891	2,947,541	2,673,017	2,476,122	-	-
1,477,888	1,455,462	1,159,575	1,276,767	-	-
1,209,535	-	-	-	-	-
8,756,989	7,698,639	8,442,215	5,503,543	18,012,248	16,697,787
220,000	215,000	210,000	205,000	195,000	135,000
339,500	364,548	389,260	407,236	390,787	380,364
1,602,447	1,486,049	1,381,494	1,249,385	1,171,576	1,133,081
47,185,034	44,516,376	43,482,156	35,931,329	46,940,134	43,650,729
(2,993,879)	657,100	10,668,181	16,624,114	(672,765)	1,396,922
23,531,247	1,630,931	1,442,832	1,980,525	701,053	620,499
(23,531,247)	(1,630,931)	(1,442,832)	(1,980,525)	(701,053)	(751,229)
-	-	326,000	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	326,000	-	-	(130,730)
\$ (2,993,879)	\$ 657,100	\$ 10,994,181	\$ 16,624,114	\$ (672,765)	\$ 1,266,192
1.3%	1.5%	1.6%	1.9%	1.9%	1.9%

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CITY OF LAKE FOREST
ASSESSSED VALUE AND ESTIMATED ACTUAL VALUE
OF TAXABLE PROPERTY

Last Ten Fiscal Years
(in thousands of dollars)

Fiscal Year Ended June 30	Residential	Commercial	Industrial	Misc.	Total Secured	Unsecured	Taxable Assessed Value	Total Direct Tax Rate
2014	\$ 7,617,416	\$ 1,702,038	\$ 1,222,872	\$ 79,979	\$ 10,622,305	\$ 610,661	\$ 11,232,966	0.094%
2013	7,436,920	1,601,855	1,161,150	78,415	10,278,340	633,967	10,912,307	0.094%
2012	7,366,787	1,574,783	1,143,125	55,163	10,139,858	610,489	10,750,347	0.094%
2011	7,167,735	1,597,821	1,162,907	61,362	9,989,825	676,167	10,665,992	0.094%
2010	7,159,114	1,683,444	1,234,199	63,548	10,140,305	668,440	10,808,745	0.094%
2009	7,690,343	1,463,499	1,117,041	291,831	10,562,714	619,832	11,182,546	0.108%
2008	7,697,469	1,364,379	978,603	284,144	10,324,595	570,109	10,894,704	0.108%
2007	7,222,303	1,195,917	925,811	277,545	9,621,576	534,380	10,155,956	0.107%
2006	6,547,321	1,118,675	860,690	259,975	8,786,661	472,230	9,258,891	0.103%
2005	5,983,586	1,056,353	786,114	234,818	8,060,871	492,521	8,553,392	0.107%

Note: Total Direct Tax Rate is the weighted average City General Fund share of the 1% Proposition 13 rate for all Tax Rate Areas; exempt values are not included in Taxable Assessed Value.

Source: Orange County Assessor data, MuniServices, LLC; 2008-09 and prior: prior year Comprehensive Annual Financial Reports

CITY OF LAKE FOREST
DIRECT AND OVERLAPPING PROPERTY TAX RATES

Last Ten Fiscal Years
(Rate per \$100 of Taxable Value)

	Fiscal Year			
	2014	2013	2012	2011
Basic Levy:				
City of Lake Forest	0.04186	0.04186	0.04186	0.04186
City of Lake Forest Community Service Area Reorganization	0.07075	0.07075	0.07075	0.07075
City of Lake Forest Lighting Fund	0.01692	0.01692	0.01692	0.01692
City of Lake Forest AB1406	0.01167	0.01167	0.01167	0.01167
Total City Direct Rate	0.14119	0.14119	0.14119	0.14120
Overlapping Rates				
Saddleback Valley Unified General Fund	0.43637	0.43637	0.43637	0.43637
Educational Revenue Augmentation Fund	0.11103	0.11103	0.11103	0.11103
Orange County Fire Authority	0.10821	0.10821	0.10821	0.10821
South Orange County Community College District	0.08522	0.08522	0.08522	0.08522
Orange County General Fund	0.03103	0.03103	0.03103	0.03102
Orange County Flood Control General Fund	0.01904	0.01904	0.01904	0.01904
Los Alisos Water District General Fund	0.01719	0.01719	0.01719	0.01719
Orange County Library District General Fund	0.01605	0.01605	0.01605	0.01605
Orange County Department of Education	0.01571	0.01571	0.01571	0.01571
Orange County Harbors, Beaches and Parks	0.01472	0.01472	0.01472	0.01472
Orange County Transportation Authority	0.00270	0.00270	0.00270	0.00270
Orange County Vector Control District	0.00108	0.00108	0.00108	0.00107
Orange County Cemetery District	0.00048	0.00048	0.00048	0.00047
Total Basic Levy	1.00000	1.00000	1.00000	1.00000
Additional Levies (Voter-Approved Rates)				
Irvine Ranch Water District	0.00687	0.00687	0.00687	0.01374
Los Alisos Water District (land value only)	0.00000	0.00000	0.00000	0.00000
Metropolitan Water District	0.00350	0.00350	0.00370	0.00370
Orange County Improvement Bonds	0.00000	0.00000	0.00000	0.00000
Orange County Flood Control District	0.00000	0.00000	0.00000	0.00000
Saddleback Valley Unified School District Bond	0.03207	0.03265	0.03163	0.03194
Tustin Union High School District	0.00000	0.00000	0.00000	0.00000
San Joaquin School District	0.00000	0.00000	0.00000	0.00000
Total Voter-Approved Levies	0.04244	0.04302	0.04220	0.04938
Total Tax Rate	1.04244	1.04302	1.04220	1.04938

Notes: There are 126 Tax Rate Areas (TRA) in Lake Forest. The above is for Tax Rate Area 30-015. City tax rates vary significantly by TRA. In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. The 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds. The table has been restated from previously published CAFR and annual reports to reflect a consistent reporting methodology in compliance with GASB 44.

Source: Orange County Auditor/Controller data, MuniServices, 2008-09 and prior: prior year CAFR reports.

Fiscal Year					
2010	2009	2008	2007	2006	2005
0.04186	0.04186	0.04186	0.04186	0.04186	0.0420
0.07075	0.07075	0.07075	0.07075	0.07075	0.0710
0.01692	0.01692	0.01692	0.01692	0.01692	0.0170
0.01167	0.01167	0.01167	0.01167	0.01167	0.0118
0.1412	0.1412	0.1412	0.1412	0.1412	0.1418
0.43637	0.43637	0.43637	0.43637	0.43637	0.4360
0.11103	0.11103	0.11103	0.11103	0.11103	0.1110
0.10821	0.10821	0.10821	0.10821	0.10821	0.1080
0.08522	0.08522	0.08522	0.08522	0.08522	0.0850
0.03102	0.03102	0.03102	0.03102	0.03102	0.0310
0.01904	0.01904	0.01904	0.01904	0.01904	0.0190
0.01719	0.01719	0.01719	0.01719	0.01719	0.0170
0.01605	0.01605	0.01605	0.01605	0.01605	0.0162
0.01571	0.01571	0.01571	0.01571	0.01571	0.0158
0.01472	0.01472	0.01472	0.01472	0.01472	0.0148
0.00270	0.00270	0.00270	0.00270	0.00270	0.0028
0.00107	0.00107	0.00107	0.00107	0.00107	0.0011
0.00047	0.00047	0.00047	0.00047	0.00047	0.0005
1.00000	1.00000	1.00000	1.00000	1.00000	1.0000
0.01374	0.14674	0.38974	0.01374	0.00002	0.00002
-	-	-	-	-	-
0.00430	0.00430	0.00430	0.00470	0.00520	0.00580
-	-	-	-	-	-
-	-	-	-	-	-
0.03043	0.02834	0.02668	0.03694	0.03079	-
-	-	-	-	-	-
-	-	-	-	-	-
0.04847	0.17938	0.42072	0.05538	0.03601	0.00582
1.04847	1.17938	1.42072	1.05538	1.03601	1.00582

CITY OF LAKE FOREST
PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

Taxpayer	2014		2005	
	Property Tax Revenue	Percent of Total Prop. Tax Revenue	Property Tax Revenue	Percent of Total Prop. Tax Revenue
Oakley Inc.	\$ 132,124	0.11%	\$ 87,708	0.10%
Orchard Lake Forest Ca LP	116,873	0.10%		0.00%
Panasonic Avionics Corporation	100,811	0.09%		0.00%
Walton CWCA	86,375	0.07%		0.00%
EQR Siena Terrace LLC	65,539	0.06%	56,774	0.06%
Shea Baker Ranch Associates LLC	62,320	0.05%	32,684	0.04%
Prologis California I LLC	56,238	0.05%	56,936	0.06%
CREF Pacific Vista LLC	55,413	0.05%		0.00%
Metropolitan Life Insurance Co	46,671	0.04%	62,681	0.07%
Comref So CA Industrial Sub F	46,261	0.04%		0.00%
Acquiport Three Corporation	41,829	0.04%	30,619	0.03%
Avalon Arboretum LP	40,307	0.03%		0.00%
WLCO LF Partners	39,849	0.03%	34,300	0.04%
US Reif Lake Forest Village	36,143	0.03%		0.00%
FPOC LLC	34,434	0.03%		0.00%
Foothill Pacific Towne Centre	34,149	0.03%		0.00%
L M Lake Forest II	34,057	0.03%		0.00%
Arden Realty LTD. Ptnshp	33,653	0.03%		0.00%
Bayport Serrano Assoc LP	29,630	0.03%		0.00%
AEW LT 50 Icon LLC	29,436	0.03%		0.00%
Casa Pacifica	28,803	0.02%	24,932	0.03%
Sequoia Equities Paloma	27,694	0.02%		0.00%
26200 Ew LLC	27,063	0.02%		0.00%
NP Bellecour Inc	26,767	0.02%		0.00%
WNG Vintage Woods LP	25,472	0.02%		0.00%
Calwest Industrial Properties		0.00%	43,870	0.05%
Riggs; Co TR of Multi-Employer		0.00%	39,517	0.04%
Bedofrd Towne Centre Plaza LLC		0.00%	39,211	0.04%
Realty Associates Fund VI		0.00%	33,581	0.04%
Bixby Land Company		0.00%	33,031	0.04%
Essex Arborstun Apt LP		0.00%	30,460	0.03%
Provence Apartments LLC		0.00%	28,012	0.03%
Matsushita Avionics Systems		0.00%	25,498	0.03%
CT Foothill 10/24 I LLC		0.00%	24,718	0.03%
Stonebridge Investors LTD		0.00%	23,912	0.03%
WALF LLC		0.00%	21,852	0.02%
Ridgecrest Partners LP		0.00%	21,779	0.02%
L B TCR Lake Forest LLC		0.00%	20,401	0.02%
Dared 83		0.00%	18,836	0.02%
Harbor Field Holdings LLC		0.00%	18,561	0.02%
First OCR Corp		0.00%	18,555	0.02%
Top Twenty-Five Totals	<u>\$ 1,257,911</u>	<u>1.08%</u>	<u>\$ 828,428</u>	<u>0.94%</u>
City Totals	<u>\$ 116,746,765</u>		<u>\$ 88,288,340</u>	

Note: Total Property Tax Revenue includes all City property tax and Redevelopment Agency tax increment but excludes Vehicle License Fee Backfill amounts.

Source: MuniServices, LLC, City Finance Department

CITY OF LAKE FOREST
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years **	Total Collections to Date	
		Amount *	Percent of Levy		Amount	Percent of Levy
2014	\$ 6,949,847	\$ 6,773,880	97.47%	\$ -	\$ 6,773,880	97.47%
2013	6,774,000	6,574,158	97.05%	-	6,574,158	97.05%
2012	6,676,320	6,338,961	94.95%	-	6,338,961	94.95%
2011	6,666,925	6,353,021	95.29%	-	6,353,021	95.29%
2010	7,150,970	6,906,250	96.58%	160,597	7,066,847	98.82%
2009	7,423,259	7,084,651	95.44%	270,660	7,355,311	99.08%
2008	7,536,302	7,220,535	95.81%	281,539	7,502,074	99.55%
2007	6,972,404	6,671,669	95.69%	138,162	6,809,831	97.67%
2006	5,742,610	5,553,404	96.71%	80,273	5,633,677	98.10%
2005	5,324,170	5,181,672	97.32%	65,349	5,247,021	98.55%

* City property tax only, excluding prior year, penalties and interest.

** These amounts consist of "prior year" taxes (excluding penalties and interest) remitted in the subsequent fiscal year from Fiscal Year 2004-05 forward; the Orange County Auditor Controller's Office aggregates these payments and does not provide detail on allocations to particular years. Penalties and interest were not recorded separately prior to Fiscal Year 2004-05.

CITY OF LAKE FOREST
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year Ended June 30	Certificates of Participation	Total Governmental Activities	Total Primary Government	Percentage of Total Assessed Valuation	Percentage of Personal Income	Debt Per Capita
2014	\$ 9,970,000	\$ 9,970,000	\$ 9,970,000	0.09%	*	\$ 127
2013	10,965,000	10,965,000	10,965,000	0.10%	6.46%	140
2012	10,965,000	10,965,000	10,965,000	0.10%	6.78%	140
2011	8,100,000	8,100,000	8,100,000	0.08%	5.26%	104
2010	8,325,000	8,325,000	8,325,000	0.08%	5.66%	107
2009	8,545,000	8,545,000	8,545,000	0.08%	5.88%	109
2008	8,760,000	8,760,000	8,760,000	0.08%	5.62%	112
2007	8,970,000	8,970,000	8,970,000	0.09%	5.85%	115
2006	9,175,000	9,175,000	9,175,000	0.10%	6.09%	117
2005	9,370,000	9,370,000	9,370,000	0.11%	6.72%	120

* Data is unavailable

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

CITY OF LAKE FOREST
DIRECT AND OVERLAPPING DEBT
June 30, 2014

	Total Debt		City's Share of
Direct and Overlapping Tax and Assessment Debt:	6/30/2014	% Applicable (1)	Debt
Metropolitan Water District	\$ 132,275,000	0.514%	\$ 679,894
Saddleback Valley Unified School District	126,840,000	36.398%	46,167,223
Irvine Ranch Water District I.D. No. 135	4,570,560	100%	4,570,560
Irvine Ranch Water District I.D. No. 182	4,905,700	100%	4,905,700
Irvine Ranch Water District I.D. No. 186	1,400,000	100%	1,400,000
Irvine Ranch Water District I.D. No. 188	1,463,000	100%	1,463,000
Irvine Ranch Water District I.D. No. 235	2,748,960	100%	2,748,960
Irvine Ranch Water District I.D. No. 282	4,410,000	100%	4,410,000
Irvine Ranch Water District I.D. No. 284	8,949,500	100%	8,949,500
Irvine Ranch Water District I.D. No. 288	280,000	100%	280,000
Trabuco Canyon Community Facilities Water District No. 2	1,415,000	100%	1,415,000
Orange County Community Facilities 87-1	158,931	100%	158,931
Orange County Community Facilities 87-2	2,402,754	100%	2,402,754
Orange County Community Facilities 87-4	25,244,077	100%	25,244,077
Orange County Community Facilities 87-6	960,000	100%	960,000
Orange County Community Facilities 87-7	1,795,000	100%	1,795,000
Orange County Community Facilities 87-9	660,000	100%	660,000
TOTAL DIRECT & OVERLAPPING TAX & ASSESSMENT DEBT			108,210,599
Overlapping General Fund Obligation Debt:			
Orange County General Fund Obligations	\$ 145,476,000	2.540%	3,695,090
Orange County Pension Obligation	32,195,288	2.540%	817,760
Orange County Board of Education			
Certificates of Participation (COPS)	15,500,000	2.540%	393,700
Municipal Water District of Orange County Water Facilities Corporation	7,775,000	3.039%	236,282
City of Lake Forest Certificates of Participation	9,970,000	100%	9,970,000
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT			15,112,833
Less: MWDOC Water Facilities Corporation (100% self-supporting)			236,282
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 14,876,551
Overlapping Tax Increment Debt (Successor Agencies)			
Orange County Neighborhood Project Tax Allocation Bonds	\$ 15,285,000	31.127%	\$ 4,757,762
City of Lake Forest El Toro Road Improvements Certificates of Participatic	7,380,000	97.154%	7,169,965
TOTAL OVERLAPPING TAX INCREMENT DEBT			\$ 11,927,727
TOTAL DIRECT DEBT			\$ 9,970,000
TOTAL GROSS OVERLAPPING DEBT			\$ 125,281,159
TOTAL NET OVERLAPPING DEBT			125,044,877
GROSS COMBINED TOTAL DEBT			135,251,159 (2)
NET COMBINED TOTAL DEBT			135,014,877

(1) The percentage of overlapping debt applicable to the City is estimated using taxable assessed proeprty value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed valuation within the boundaries of the City divided by the tota taxable assessed value.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and non-bonded capital lease obligations

CITY OF LAKE FOREST
DIRECT AND OVERLAPPING DEBT
June 30, 2014

Ratios to 2013-14 Assessed Valuation:

2013-14 Assessed Valuation	\$11,238,774,618
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Total Overlapping Tax and Assessment Debt	0.96%
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Ratios to Assessed Valuation:

Gross Combined Direct Debt (\$)	0.09%
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Gross Combined Total Debt	1.20%
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Net Combined Total Debt	1.20%
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Ratios to to Redevelopment Incremental Value (\$645,922,982)

Total Overlapping Tax Increment Debt	1.85%
--------------------------------------	-------

Notes:

For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

CITY OF LAKE FOREST
LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Assessed Value of all Real and Personal Property</u>	<u>Debt Limit Percentage</u>	<u>Debt Limit</u>	<u>Amount of Debt Applicable to Debt Limit</u>	<u>Legal Debt Margin</u>
2014	\$ 11,238,774,618	15%	\$ 1,685,816,193	\$ -	\$ 1,685,816,193
2013	10,885,724,192	15%	1,632,858,629	-	1,632,858,629
2012	10,721,083,140	15%	1,608,162,471	-	1,608,162,471
2011	10,744,518,458	15%	1,611,677,769	-	1,611,677,769
2010	10,915,562,030	15%	1,637,334,305	-	1,637,334,305
2009	11,189,196,810	15%	1,678,379,522	-	1,678,379,522
2008	10,896,487,851	15%	1,634,473,178	-	1,634,473,178
2007	10,155,956,671	15%	1,523,393,501	-	1,523,393,501
2006	9,258,891,763	15%	1,388,833,764	-	1,388,833,764
2005	8,553,392,946	15%	1,283,008,942	-	1,283,008,942

Source: City Finance Department

CITY OF LAKE FOREST
DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Calendar Years

Calendar Year	Population (1)	Personal Income (in thousands) (2)	Per Capita Personal Income (2)	Unemployment Rate (3)
2014	79,139	*	*	*
2013	78,501	\$ 169,792,810	\$ 54,519	4.3%
2012	78,036	161,743,827	52,342	4.8%
2011	77,481	154,131,535	50,440	5.3%
2010	78,720	147,138,449	48,760	6.6%
2009	78,344	145,247,447	48,624	6.2%
2008	78,317	155,925,156	52,720	3.6%
2007	78,243	153,446,641	52,342	2.6%
2006	77,859	150,598,354	51,359	2.3%
2005	78,020	139,408,948	47,417	2.6%

* Data is unavailable.

Sources: (1) State Department of Finance
(2) Bureau of Economic Analysis (Orange County data)
(3) California Employment Development Department (Lake Forest data)

CITY OF LAKE FOREST
PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

Employer	2014		2005 ²	
	Number of Employees ¹	Percent of Total Employment	Number of Employees	Percent of Total Employment
Oakley Inc.	2,291	4.83%	-	0.00%
Panasonic Avionics	1,789	3.77%	-	0.00%
Loan Depot	1,162	2.45%	-	0.00%
Invensys Corporation	540	1.14%	-	0.00%
Apria Healthcare Group Inc.	445	0.94%	-	0.00%
Spectrum Brands HHI	420	0.89%	-	0.00%
Bal Seal Engineering	400	0.84%	-	0.00%
Skilled Healthcare	350	0.74%	-	0.00%
Alcon Research	313	0.66%	-	0.00%
Wal-Mart	311	0.66%	-	0.00%
Home Depot USA Inc.	300	0.63%	-	0.00%
Spectrum Care	300	0.63%	-	0.00%
Dynacast	251	0.53%	-	0.00%
Wet Seal	196	0.41%	-	0.00%
Ossur Americas	160	0.34%	-	0.00%
	<u>9,228</u>	<u>19.47%</u>	<u>-</u>	<u>0.00%</u>
Total Employment ³	47,400			

Source: ¹ Information Provided by Companies

² Data is not available

³ California Employment Development Department - November 2014

CITY OF LAKE FOREST
FULL-TIME AND PART-TIME CITY EMPLOYEES
BY FUNCTION

Last Ten Fiscal Years

Full-Time and Part-Time Employees as of June 30,										
<u>Function</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u> ¹	<u>2005</u>
General government	28	28	28	28	28	31	28	26	43	59
Public works	13	13	13	13	12	14	14	14	14	14
Development services	15	15	15	15	16	17	17	14	14	17
Community services ²	73	73	61	55 ³	25	26	21	20	-	-
Police services	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>130</u>	<u>130</u>	<u>118</u>	<u>112</u>	<u>82</u>	<u>90</u>	<u>81</u>	<u>74</u>	<u>71</u>	<u>90</u>

¹ Part-time positions were converted to hours beginning in Fiscal Year 2005-06, thus, hours were converted to full-time equivalents after the conversion.

² Newly created department in Fiscal Year 2006-07, previously reflected in General Government.

³ Hours for part-time positions were previously summed to equal a full-time position. Beginning in 2011, each part-time position is counted individually.

CITY OF LAKE FOREST
OPERATING INDICATORS
BY FUNCTION

Last Nine Fiscal Years

	Fiscal Year								
	2014	2013	2012	2011	2010	2009	2008	2007	2006
Police: ¹									
Arrests	829	1,073	975	886	1,080	723	954	1,050	858
Number of calls responded to	23,187	23,563	24,114	25,006	24,505	25,452	26,371	27,531	27,000
Public works:									
Street resurfacing (miles)	9	7	9	25	25	8	20	12	21
Parks and recreation:									
Number of recreation classes ²	883	698	782	775	590	522	225	104	75
Number of facility rentals	349	331	241	226	1,487	63	11	4	10

¹ Police services are contracted through the County of Orange.

² The City contracts with the Saddleback Valley Unified School District for various recreation services; the number of classes shown above represents classes offered directly by the City.

CITY OF LAKE FOREST
CAPITAL ASSET STATISTICS
BY FUNCTION

Last Nine Fiscal Years

	Fiscal Year								
	2014	2013	2012	2011	2010	2009	2008	2007	2006
Police:									
Stations	1	1	1	1	1	1	1	1	1
Public works:									
Streets (miles)	194	194	188	188	188	188	188	188	155
Traffic signals	97	97	95	95	95	94	93	92	86
Parks and recreation:									
Parks	27	27	27	27	27	27	27	21	21
Community centers	1	1	1	1	1	1	1	1	1

Source: City of Lake Forest